

# Bicycle Retailer

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### Santa Fe Shops Defy Traditional Sales Models

BY MATT WIEBE

SANTA FE, NM—Fewer bike brands that control a growing share of the market and fewer shops in business that support fewer suppliers are classic examples of industry consolidation.

But swimming against this current is a new wave of retailers that are developing niche businesses to serve customers falling through the cracks of traditional generalist bike shops.

A high school fixed-gear rider looking for pink deep-dish rims to personalize their ride, a 45-year-old looking to enter the big-hit world for the first time or a longtime cyclist looking for

meticulous, individualized service and component advice—your shops have arrived.

“I see myself as brokering artistic bike parts to my customers,” said David Bell with tongue firmly in cheek. Bell owns Mellow Velo in Santa Fe, New Mexico.

Customers who walk into Bell’s 500-square-foot shop can choose from rims in 13 colors, and track cogs polished to jewelry-like levels. Santa Fe is, after all, the third largest art market in the nation.

Bell, whose store has been open just over a year, was joined by two other

small retailers in the past few months. Frank Sotomayor opened Frankie Flats, which focuses on service, and David Meredith opened One Ghost to focus on downhill jump bikes.

But Santa Fe, a city of 70,000 residents, is also home to three large traditional bike shops. When added to the three above—that’s one bike shop per 11,667 people.

What’s happening in Santa Fe could be happening across the nation, given the segmentation of the market into different categories including urban

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### Specialty Bike, Sports Chains Deliver Dollars

BY MATT WIEBE

Success in the bike business in 2006 depended on which channel of trade you did your business in.

Shipments to mass retailers were down overall, close to 8 percent, whereas suppliers to sporting goods and bike shops saw business increase by the same amount.

Bill Austin summed up supplier sales to bike dealers succinctly: “Units and dollars were up, as was the average selling price. It was a good year for suppliers,” Austin said. Austin is Raleigh USA’s chairman and chief executive

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### Bicycling Gains Traction in New Congress

BY LYNETTE CARPIET

WASHINGTON, D.C.—Raleigh’s Reed Pike knows firsthand that more lawmakers are willing to work with the bicycle community to make cycling a valid mode of transportation.

Just a day after meeting with Sen. Maria Cantwell’s (D-WA) legislative correspondent on Capitol Hill at the National Bike Summit, Pike received an

email informing him that she decided to co-sponsor the Bicycle Commuter Tax Benefit Act.

“We had meetings with a number of representatives in the Washington delegation and they all went very well,” said Pike, Raleigh’s director of marketing, who has attended the Summit on two other occasions. “We’re particularly excited about this one success, but we’re

confident that other meetings will have an effect, too.”

Andy Boyland, owner of three Cycle Craft stores in New Jersey, agreed. “I thought we got pretty good reception from all,” he said, adding that he had a challenging schedule covering meetings with Congress members from New York, New Jersey and Pennsylvania.

Boyland, a first-time attendee, met with Rep. Steven Rothman (D-NJ), who was pulled out of an appropriations meeting to greet his delegation.

“Partly it was because he’s my wife’s cousin, so it was easy, but my delegation was quite shocked when they paged him,” he said.

“For me it was an eye-opening experience. The League and Bikes Belong were fantastic in giving us information and materials to be ready. There’s no question I’ll be here next year.”

Pike and Boyland’s sentiments were echoed by many of the 435 attendees at this year’s Summit, March 14-16. In its seventh year, the annual gathering set attendance records. Industry participation also was up, totaling 92; retailers accounted for 33 of that total.

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### Regional Shows Find Supporters Vary by Market

BY SEAN HONG

NEW YORK, NY—Glen Goldstein, president of Bicycle Shows U.S., has seen little to improve his spirits since a year ago, when he was forced to put his New York City Bicycle Show on hiatus due to languid industry support.

Although he had hoped that his luck would change in 2007, Goldstein’s New York show remains dormant and to exacerbate matters, he has also retired his Boston show.

“I’m not holding my breath that the shows will start up again in the future,” Goldstein said. “I’d like to, but I’m just watching at this point.”

Goldstein chalks up the Boston show’s demise to the same reason New

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Photo by Jay Clark

The League organized Summit delegates by state, giving each group time to strategize and plan for their meetings with Congress members.

#### On the Inside

Pacific Cycle feels domino effect of Wal-Mart’s sluggish bike business in its 2006 sales. **p9**

The first batch of Coasting bikes hits the market in Chicago at St. Patrick’s Day parade. **p24**



## Specialty Bike, Sports Chains...

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officer and chair of the Bicycle Product Suppliers Association's (BPSA) statistical committee.

On the other side of the aisle, Pacific Cycle, the largest supplier of bikes in the United States, reported that its sales into the mass market were down. If you factor out the increase in sales of Pacific swing sets and motor scooters last year, its bike sales were off close

another \$1 billion or more to total bicycle market sales.

Rising energy, materials and fuel prices had relatively little effect on overall import unit value. The average bike imported in 2006 cost \$58.76, up a modest 1.6 percent over 2005, and not much off the 3 percent rise in wholesale price reported by BPSA members.

Import bike value has been rising

*"I'm confident that our mass side of the business will rebound next year, and our IBD business is growing strongly. So many dealers are looking for a big supplier who is not Trek and Specialized, and for them, we are a good fit." —Jeff Frehner, chief executive officer of Pacific Cycle.*

to 8 percent, while sales to bike shops were up double digits.

"I'm confident that our mass side of the business will rebound next year, and our IBD business is growing strongly. So many dealers are looking for a big supplier who is not Trek and Specialized, and for them, we are a good fit," said Jeff Frehner, Pacific Cycle's chief executive officer.

**2006 Market Report.** BPSA reported its membership's 2006 sales grew to \$766 million, up from \$710 million in 2005. The average wholesale selling price grew 3 percent from \$288 in 2005, to \$297 last year.

The number of Made in USA bikes sold was about 195,000 units, up 5 percent over last year, representing over \$500 million in retail sales. Gains made by full-suspension and smaller custom builders more than offset deep losses in domestic BMX production.

Suppliers imported 18.1 million units in 2006, down 8 percent from 19.6 million units imported the year before. But they turned around and exported 65,000 of these bikes into other markets.

Combine all the numbers and suppliers sent 18.2 million bikes to retailers, suggesting retail bike sales of \$2.6 billion. This number is almost equally divided between bike shops on the one hand, and mass-market and sporting goods retailers on the other.

Data on clothing, parts and accessories shipped to retailers is too incomplete to estimate sales. The BPSA, which tracks P&A shipments to retailers, does not expect to have reliable numbers until next year.

Sales of parts and clothes could add

steadily since '02, when the average value bottomed out at \$49.35.

Import numbers are down, but unit values for kids' bikes are up—24-inch bikes jumped 11.3 percent, to \$48.88 from \$45.97 in 2005, and 20-inch bikes were up 4.2 percent to \$38.86. This is a reflection of suppliers no longer chasing opening price point business and parents choosing to shell out more money to ride with their kids.

Road bikes and 20-inch bikes were also up more than 4 percent in value over 2005. Mountain bikes and sub-20-inch sidewalk bikes were the only categories losing value.

**Confusing Export Situation.** Due to lack of industry data on the export market, Department of Commerce numbers are the only data available. They suggest U.S. manufacturers pro-

duced 220,965 units domestically, which were shipped to other markets.

If true, domestic bicycle production last year topped 400,000 units, which seems unlikely. For example, the 25,842 domestically produced bikes shipped to China under the Department of Commerce's miscellaneous bike category had an average unit value of \$55. These Made in USA bikes were \$4 cheaper than the average Chinese bike imported into the U.S. market.

The largest export markets for U.S.-made bikes with wheel sizes over 25 inches, which covers road and mountain bikes, are Canada, Japan and the Netherlands. Each received 18,621, 10,247, and 7,613 units, respectively. The Netherlands received bikes averaging \$1,034 each, followed by Japan at \$781 and Canada at \$612.

Which markets have the deepest pockets for Made in USA road and mountain bikes? Guatemala received bikes averaging \$1,342 each, followed by the UK at \$1,137.

Are Central American countries experiencing a hot BMX market? Guatemala, Costa Rica and Honduras are the second, third and fourth largest market for U.S.-made bikes with wheel sizes less than 25 inches. Canada is its largest small-wheel market.

Almost the same number of BMX bikes were sent to Guatemala and Honduras as were sent to Canada last year. But the Central American rider has deeper pockets—the average bike has a wholesale value of \$250, compared to the \$152 bikes the United States ships to Canada.

That said, the number of bikes made in the United States and shipped into other markets is probably closer to 100,000 units, less than half of what the Department of Commerce reports.

**Strong Sales to Continue.** Darkening economic indicators, which hit last year, did little to dampen sales and should have little effect this year.

"Media play on health and environmental issues are already high and it is just going to increase," said Pacific Cycle's Frehner.

"Bikes fight obesity and are sustainable, environmentally friendly transportation at the same time. Even if the economy slows, this media message is increasing and will drive bike sales. We are in a great position as an industry," he said.

Even reports of the end of the road bike boom, which swept through the market last spring, are premature.

According to the BPSA, bike shops sold 8 percent more road bikes last year than in 2005. And everyone agrees that the glut of carbon bikes on the market will lower prices, but little impact was felt last year.

Orbea, the little Basque bike company no one had heard of five years ago, had strong carbon road sales last year and expects to continue growing sales.

"Pushing carbon technology like we did with the Orca and Diva is already bringing us sales faster than we expected," said Ronnie Points, Orbea USA's national sales manager.

"We haven't seen any slowdown in the sales of our carbon product. Riders switch to carbon for the ride, and as long as you make that ride better, you

### Percent of Unit Market Share By Product Category

|            | 2004 | 2005 | 2006  |
|------------|------|------|-------|
| 20/24" All | 29%  | 28%  | 25.3% |
| 26" All    | 49%  | 47%  | 46.5% |
| Road       | 10%  | 12%  | 12%   |
| Hybrid     | 11%  | 13%  | 15.7% |
| Tandems    | 0%   | 0%   | 0.2%  |

Source: U.S. Department of Commerce

### U.S. Bicycle Import Landed Unit Value

|                                   | 2002     | 2003     | 2004     | 2005     | 2006     |
|-----------------------------------|----------|----------|----------|----------|----------|
| Kids' bikes wheels <20"           | \$25.78  | \$24.09  | \$25.44  | \$25.30  | \$24.43  |
| 20" wheel sizes                   | \$39.90  | \$40.20  | \$38.04  | \$37.31  | \$38.86  |
| 24" wheel sizes                   | \$49.36  | \$47.75  | \$45.97  | \$48.88  | \$54.41  |
| 26" wheel sizes                   | \$78.02  | \$76.01  | \$78.31  | \$86.91  | \$83.99  |
| 700c wheel sizes                  | \$143.15 | \$181.42 | \$114.21 | \$240.13 | \$273.02 |
| Average unit value of all imports | \$49.35  | \$50.01  | \$53.61  | \$57.85  | \$58.76  |

Source: U.S. Department of Commerce

### U.S. Bicycle Import Value by Category (in millions)

|        | 2002     | 2003     | 2004     | 2005       | 2006       | Change % |
|--------|----------|----------|----------|------------|------------|----------|
| Kids'  | \$152.28 | \$127.64 | \$116.53 | \$152.75   | \$134.67   | -12%     |
| 20"    | \$238.55 | \$222.19 | \$196.64 | \$210.03   | \$190.24   | -9%      |
| 24"    | \$90.24  | \$90.80  | \$84.02  | \$89.10    | \$93.26    | 5%       |
| 26"    | \$395.58 | \$380.37 | \$404.13 | \$447.18   | \$426.69   | -5%      |
| 700c   | \$76.72  | \$90.71  | \$181.25 | \$235.72   | \$212.08   | 4%       |
| Totals | \$953.37 | \$911.72 | \$982.57 | \$1,134.77 | \$1,061.27 | -6%      |

Source: U.S. Department of Commerce



### U.S. Bicycle Imports by Origin

|        | 2004       | 2005       | 2006       | Change % '05 to '06 |
|--------|------------|------------|------------|---------------------|
| China  | 17,168,679 | 18,433,413 | 17,217,297 | -7%                 |
| Taiwan | 1,027,145  | 1,117,851  | 774,555    | -31%                |
| Canada | 14,351     | 10,687     | 8,200      | -23%                |
| Italy  | 24,065     | 4,092      | 5,366      | -31%                |
| Other  | 90,687     | 49,365     | 56,903     | 15%                 |

Source: U.S. Department of Commerce

### U.S. Bicycle Imports by Category (in millions of units)

|        | 2002   | 2003  | 2004   | 2005   | 2006   | Change % |
|--------|--------|-------|--------|--------|--------|----------|
| Kids'  | 5.907  | 5.297 | 4.58   | 6.037  | 5.513  | -9%      |
| 20"    | 5.978  | 5.527 | 5.169  | 5.629  | 4.896  | -13%     |
| 24"    | 1.828  | 1.902 | 1.828  | 1.823  | 1.714  | -6%      |
| 26"    | 5.07   | 5.004 | 5.161  | 5.145  | 5.080  | -1%      |
| 700c   | 0.536  | 0.5   | 1.587  | 0.982  | 0.859  | -12%     |
| Totals | 19.319 | 18.23 | 18.325 | 19.616 | 18.062 | -8%      |

Source: U.S. Department of Commerce

### U.S. Bicycle Exports by Category

|                | 2003   | 2004   | 2005    | 2006   | Change % |
|----------------|--------|--------|---------|--------|----------|
| Tire Size <25" | 40,631 | 68,850 | 54,121  | 35,396 | -34%     |
| Tire Size >25" | 94,305 | 92,859 | 137,704 | 61,784 | -55%     |

Source: U.S. Department of Commerce

### Top Five Parts And Accessories Categories

| 2003    | 2004         | 2005    | 2006     |
|---------|--------------|---------|----------|
| Helmets | Helmets      | Helmets | Tires    |
| Tires   | Tires        | Tires   | Helmets  |
| Apparel | Apparel      | Apparel | Apparel  |
| Saddles | Car Carriers | Wheels  | Pedals   |
| Wheels  | Saddles      | Saddles | Footwear |

Source: BPSA, Data reflects BPSA membership changes

### Percent of Dollar Market Share by Product Category

|            | 2003 | 2004 | 2005 | 2006  |
|------------|------|------|------|-------|
| 20/24" All | 12%  | 12%  | 10%  | 9.7%  |
| 26" All    | 52%  | 48%  | 44%  | 44.7% |
| Road       | 25%  | 29%  | 34%  | 32.6% |
| Hybrid     | 9%   | 10%  | 10%  | 12.2% |
| Tandems    | 0%   | 0.4% | 0%   | 0.3%  |

Source: BPSA, Data reflects BPSA membership changes

have a compelling reason for riders to upgrade."

Points also is encouraged by the growth in stage racing, festivals, points series and the growing bike culture in general. This is not only having an effect of keeping enthusiasts upgrading, but it is bringing non-cyclists into shops for the first time.

"We have two pro-level stage races in Arkansas this year. Five years ago that was unimaginable. And it's not just rider participation, the races are drawing huge crowds of people. Hybrids may be their first purchase, but they'll move up," he said.

**Domestic Bike Production.** The shining star in the domestic market is the hundreds of small custom framebuilders who weld or braze up frames in garages or small workshops.

Every year the United Bicycle Institute (UBI) graduates a new wave of framebuilders who try their hand at building. More than 1,000 people have taken UBI's framebuilding classes since it started and the institution graduates about 100 builders annually.

Steve Garn at Brew Racing began framebuilding classes last year and figures seven of his alumni have already started small-scale production. These builders are not a blip on the radar. Together they are a formidable market. So much so, that Shimano started to target small builders a few years ago.

Kirk Pacenti, founder of Pacenti Cycle Design, quit his day job at an auto parts maker last year because his business, which supplies custom framebuilders, was growing so fast it required his full-time attention.

"Part of my growth is due to being able to focus on my business better, but I think there are more custom bike builders in business today than even a few years ago. Just consider all the UBI graduates each year," Pacenti said.

Putting a number on the size of that market, which extends from large custom builders like ABG, Serotta, Seven and Waterford that mix their custom lines with stock sizes, to framebuilders working out of garages, is difficult.

Shimano estimates that smaller builders, those making less than 1,000 frames a year, could account for 30,000 units annually.

That number may seem high, but consider the number of mountain bike and road builders like Arrow Racing, Brew Racing, Co-Motion, Cranfield Brothers, Davidson Cycles, Evil Bikes, HH Racing, Ingles Cycles/Retrotec, Lenz, Niner, Rock Lobster, Soulcraft, Vicious, Willits Brand, Zinn and countless others.

High-end, full-suspension production also is growing. Sapa, the company formerly known as Anodizing Inc., is the third largest producer of frames in the United States, second only to Cannondale and Trek. Santa Cruz is its largest customer, although the company builds for other companies.

Ellsworth and Intense both opened factories in the last two years and other brands like Titus and Yeti continue to weld up leading suspension designs.

Until last year, domestic BMX production had been the darling of domestic manufacturing with annual production hovering around 20,000 units. "Everything's changed and now there are few BMX bikes still made in this country," said Steve Garn, Brew Racing's founder.

Garn built BMX frames for a variety of brands, and his contract BMX business grew to swamp his other work. But he got out of the BMX business last year, citing increasing price pressure from Chinese imports.

"We were holding our own against Chinese bikes, but when Vietnam received favorable trading status, they dropped BMX prices to where we

could no longer compete," he said. "I was down to selling a BMX frame made in North Carolina from U.S. chromoly tubing for about \$130. You don't make money doing that."

The big BMX production shops that

a bike. It's not surprising Target's bike sales were up last year.

More important to Wal-Mart's struggling bike sales, according to suppliers, was its decision to drop its popular lay-away program for the hol-

***"We haven't seen any slowdown in the sales of our carbon product. Riders switch to carbon for the ride, and as long as you make that ride better, you have a compelling reason for riders to upgrade." —Ronnie Points, Orbea USA's national sales manager***

remain are welding frames in the hundreds of units, not the thousands of units they did just a few years ago.

#### Mass and Sporting Goods Channels.

Wal-Mart is the country's largest retailer of bikes. So it should come as no surprise that if Wal-Mart's retail business is off, so are bike sales.

Wal-Mart reported its first store-on-store decline last fall, after more than a decade of steady growth. Its slowdown comes while its major competitor, Target, continues to grow.

Part of the problem, as Wal-Mart sees it, is its lower level of merchandising—something it is revamping.

Walk into a bike department at most Wal-Mart stores and all you see are rows and rows of front tires—the bikes are buried behind hangtags and clutter. Walk into a bike department at Target, and you see a clean side view of

idays. For a company that prides itself in the amount of cash business it does, the decision struck many as flawed and suppliers said it had a huge impact on holiday bike sales.

Bicycle sales at sporting goods retailers are increasing, with estimates ranging from 800,000 to 1 million plus units sold through that channel last year. Some of this growing volume is attributable to retailers like Dick's, The Sports Authority and Academy opening additional stores, and new retailers like Bass Pro Shops getting into bikes for the first time.

While the average retail price of bikes sold through this channel is less than through bike shops, many retailers have added trained staff and smart merchandising. Suppliers think the average selling price through this channel is going up faster than at traditional bike shops. **BRAIN**

# High Inventories, Cold EU Winter Make their Mark on 2006

BY JOHN CRENSHAW

Bicycle sellers in the big European and North American markets tore through their inventories in 2004 and, predicting a similarly fruitful 2005, an ever-optimistic industry placed big orders with factories around the globe.

But especially in the United States and to a somewhat lesser degree in the European Union, that sunny outlook clouded under the reality of a flattened market. The bikes didn't roll out the doors as predicted, and inventory backed up from showroom floors up the supply chain through suppliers' warehouses. The West's overstocks carried through into 2006, with big ramifications for Asian suppliers.

The EU's anti-dumping duties on Chinese and Vietnamese bikes, coupled with severe weather in Europe, also factored into a faltering 2006 market and a worldwide sourcing shuffle.

## China

China indisputably continues to dominate the world bicycle market in terms of sheer volume, and its manu-

facturers are even taking some pieces out of the top-end market with their carbon fiber expertise, but China nonetheless took a big share of last year's hits. While 2006 statistics on production, domestic sales and exports are not available yet from China, its customers' data reveals some of what happened.

The EU imposed a 48.5 percent anti-dumping duty on Chinese bikes in 2004 and added the standard 15 percent duty on top of that in 2005, boosting the price of a Chinese bike by 63.5 percent at the EU's borders.

The effects were immediate, and they continue. The 25 EU member nations imported more than 2.3 million Chinese bikes in 2004. That number dropped 44 percent to 1.3 million in 2005 and, according to preliminary figures from Eurostat, dropped by nearly half again in 2006 to 617,000 units.

The models being brought in don't generate huge revenues. Those shipped to the western 15 EU countries brought just 35 euros, on average, and those destined for the eastern 10 nations a scant 18 euros—an overall average of

\$35 at current exchange rates.

The United States' inventory hold-over from 2005 played a big role in China's lowered exports to America in 2006. The United States imported 18.4 million Chinese bikes in 2005, 1.26 million more than the year before, then flip-flopped last year, importing 1.22 million fewer than in '05. The biggest drops were in tot-sized sidewalk bikes and 20-inch models, as U.S. orders for 26-inch and road models from China actually ticked up. Most go to mass-market outlets, but more and more are in independent retail at the entry level.

An export loss nearing 2 million units is hard to miss, and BRAIN's international editor, Doug McClellan, reports that several Chinese bike manufacturers are diversifying into fitness equipment.

On a broader scale, China's resistance to revaluing its currency, and its allegedly unfair state support of key industries such as steel, continue to irk U.S. lawmakers. The Bush administration recently filed a complaint with the World Trade Organization seeking

resolution to the issues, and some U.S. legislators continue to threaten drastic tariffs on Chinese products.

## Taiwan

The 2005 bicycle backup blindsided the island's industry, where production dropped by 11 percent from 4.6 million bicycles in 2005 to 4.1 million last year, according to figures from the Taiwan Bicycle Exporters Association.

Taiwan's exports to the United States, its biggest customer, led the slide. Taiwan built 804,000 bikes for U.S. importers in 2005, but just 565,000 in 2006, a 30 percent drop. Much of the hit came in the 26-inch mountain bike and comfort bike categories.

Unit export numbers to the EU fell by 9 percent, 270,000 units, to slightly more than 3 million total to all 25 member nations. The United Kingdom took more than 700,000 of them, putting it ahead of the United States in terms of unit numbers.

The hit to U.S. exports alone cut Taiwan's sales revenues by \$49 million, and the diminished value of exports to the EU chopped out another \$39 million compared with 2005 sales. Global sales revenues dropped a total of \$79.6 million, just under 9 percent.

Although total revenues were down, Taiwanese builders did have one piece of good news. The average FOB (freight on board) price of a Taiwan-built bicycle hit \$206, cracking the \$200 barrier for the first time. Average price in the United States was \$359, a good jump from 2005's \$313. Average price for all 25 EU countries was \$155.

The lower-value shipments to Europe probably reflect manufacturers' shift of entry-level bike production for the EU from China to Taiwan, which is not subjected to anti-dumping duties. It's something TBEA executives, who

## EU 15 Bicycle Imports From Eastern Europe

|                        | 2001    | 2002    | 2003      | 2004      | 2005      | 2006      |
|------------------------|---------|---------|-----------|-----------|-----------|-----------|
| Poland, Units          | 519,895 | 616,119 | 759,742   | 836,635   | 917,764   | 665,538   |
| Dollar Value/Mil.      | 50.450  | 67.031  | 73.961    | 79.491    | 96.082    | 65.031    |
| Bulgaria, Units        | 29,680  | 94,813  | 183,557   | 208,859   | 266,985   | 373,152   |
| Dollar Value/Mil.      | 3.111   | 9.424   | 15.013    | 1.715     | 22.464    | 31.283    |
| Hungary, Units         | 39,095  | 75,625  | 112,764   | 139,383   | 107,798   | 142,458   |
| Dollar Value/Mil.      | 5.579   | 12.180  | 21.231    | 32.538    | 28.932    | 38.027    |
| Czech Republic, Units  | 229,335 | 178,622 | 230,277   | 157,292   | 146,166   | 121,321   |
| Dollar Value/Mil.      | 24.833  | 22.069  | 34.574    | 34.028    | 32.820    | 28.256    |
| Romania, Units         | 3,857   | 198     | 215       | 1,621     | 33,852    | 45,865    |
| Dollar Value/Mil.      | 0.297   | 0.002   | 0.026     | 0.120     | 2.333     | 4.082     |
| Total Units            | 821,862 | 965,377 | 1,286,555 | 1,343,790 | 1,472,565 | 1,348,334 |
| Total Dollar Value/Mil | 84.269  | 110.706 | 144.805   | 163.891   | 182.631   | 166.678   |

\*Dollar value in millions, based on exchange rates of Dec. 31, 2006  
Source: Eurostat

## Altered Asian Landscape in The E.U. Bicycle Scene

| Country/Region           | China       |             | Taiwan      |             | Vietnam     |             | Total Extra-EU |             | Value/ \$1 Mil | Value/ \$1 Mil | Average Sale Price |
|--------------------------|-------------|-------------|-------------|-------------|-------------|-------------|----------------|-------------|----------------|----------------|--------------------|
|                          | Units, 2005 | Units, 2006 | Units, 2005 | Units, 2006 | Units, 2005 | Units, 2006 | Units, 2005    | Units, 2006 | 2005           | 2006           | 2006               |
| United Kingdom           | 211,002     | 71,051      | 618,408     | 695,442     | 464,762     | 154,998     | 3,073,367      | 2,894,246   | 236.14         | 240.36         | \$83               |
| Germany                  | 81,892      | 61,576      | 384,544     | 324,539     | 143,479     | 185,467     | 925,428        | 1,198,915   | 117.95         | 156.63         | \$130              |
| Belgium/Lux              | 285,672     | 125,276     | 458,532     | 306,392     | 118,353     | 14,694      | 908,849        | 842,761     | 86.75          | 94.82          | \$112              |
| Netherlands              | 156,193     | 56,855      | 251,947     | 290,528     | 79,140      | 55          | 642,474        | 560,650     | 98.78          | 109.51         | \$195              |
| Italy                    | 190,563     | 80,868      | 83,918      | 101,839     | 31,513      | 1,561       | 503,139        | 508,367     | 39.29          | 50.26          | \$99               |
| Poland                   | 174,788     | 78,208      | 71,500      | 87,733      | 49,454      | 13          | 315,490        | 224,100     | 19.58          | 18.37          | \$82               |
| Czech Republic           | 9,080       | 8,218       | 108,402     | 106,381     | 4,510       | 50          | 227,354        | 245,044     | 24.81          | 29.82          | \$121              |
| Old EU 15 Total          | 925,322     | 493,901     | 1,797,349   | 2,508,755   | 837,247     | 423,407     | 8,277,314      | 7,870,478   | 857.28         | 846.79         | \$107.59           |
| New EU 10 Total          | 183,868     | 194,606     | 179,902     | 220,099     | 53,964      | 63          | 864,932        | 738,747     | 70.22          | 84.75          | \$114.72           |
| Eu 25 Total              | 1,305,712   | 688,507     | 2,740,003   | 2,728,854   | 1,194,318   | 423,470     | 9,142,246      | 8,609,225   | 927.50         | 930.54         | \$108.86           |
| Change From Prev. Year   | -1,021,905  | -617,205    | 360,580     | -11,149     | -702,806    | -770,848    | -215,095       | -533,021    | 69.94          | 3.03           |                    |
| % Change From Prev. Year | -43.90%     | -47.27%     | 15.15%      | -0.41%      | -37.05%     | -64.54%     | -2.3%          | -5.83%      | 8.16%          | .33%           |                    |

(Source: Eurostat. Includes revised 2005 figures; not all 2006 data available.)

strongly contend Taiwan's bicycle manufacturing future hinges on the highest end of the market, are looking into.

One solution would be to shift lower-end manufacturing to a third country—that used to be Vietnam—with lower labor costs and favorable trade status with Europe. Two years ago, TBEA executives took a serious look at Bangladesh, which shipped more than 300,000 bikes to Europe last year. In 2006, the Taiwanese met with their counterparts in India, again eyeing the possibility of a partnership aimed at the European market.

No new factories or investments have come from either meeting, but some moves seem inevitable.

### Vietnam

Taiwanese manufacturers had invested heavily in Vietnamese factories, primarily producing for Europe and bypassing anti-dumping duties on Chinese bikes. Exports of Vietnamese bikes sky-rocketed, average sale prices plummeted, and the EU responded in 2005 with 34.5 percent anti-dumping duties.

The effects were even more dramatic than the EU action against China. Exports to Europe fell from 1.9 million units in 2004 to 1.2 million in 2005 to 730,000 last year.

Some of the Taiwanese-invested Vietnamese factories diversified into other

products, at least one moved operations to Cambodia, and all are almost assuredly looking for new markets. One of those could be the United States, and at least some U.S. product managers have looked into Vietnam's possibilities. To date, logistical problems and bureaucratic obstacles seem to have deterred any significant orders.

### European Union

Some of the same forces pushing Taiwanese manufacturers to seek favorable labor costs and duty rates are driving Western European brands to look to Eastern Europe.

Imports from Poland, Czech Republic, Hungary, Bulgaria and Romania, although hardly ready to bump Taiwan off the top spot, are increasingly part of the EU mix.

"There's no choice, really," said René Takens, president of the European suppliers' group COLIBI and chief executive officer of Accell. "We cannot import from Asia, so to go to countries with low labor costs, we have to go to Eastern Europe. We decided to do it ourselves. We have better control over quality, delivery, all those things," he said, referring to Accell's factory in Hungary.

Overall, 2006 had bright spots in spite of a hard winter, Takens said. "The industry had a lot of new products, and we can see—not only in Europe—that

people are more interested in cycling, whether for fun, or for health reasons. And we see all the bigger countries, France, Germany, Italy, Holland, paying attention to cycling, to the bicycle routes and parking," he said.

Europe's independent retail stores are experiencing much of the same attrition seen in the United States, he said, "and it's not all bad, because in general they see total sales volume increase, and as it goes through less dealers, all the remaining ones have a little more. That helps them be more professional, and to invest a little more."

Germany's independent channel snagged a little bigger share of the EU's biggest national market, reported Markus Fritsch, editor of trade publication *SAZ Bike*, going up from 52 percent to 54 percent of all bike sales. Sales in Germany overall were down 7 percent, however, to 4.4 million bicycles.

More than half of Germany's independent retailers reported increased revenues last year in spite of that, profiting from increased accessory sales and higher average sales prices on bikes, up from 539 (\$711) to 564 euros (\$735).

Germany imported about 2.4 million bikes last year, according to early

## Taiwan's Bicycle Exports 1997-2006

| Year | No. Units | Value (U.S. \$) |
|------|-----------|-----------------|
| 1997 | 8,955,424 | \$873 million   |
| 1998 | 9,388,311 | \$897 million   |
| 1999 | 7,782,869 | \$760 million   |
| 2000 | 7,534,350 | \$821 million   |
| 2001 | 4,796,148 | \$536 million   |
| 2002 | 4,219,038 | \$524 million   |
| 2003 | 3,882,835 | \$583 million   |
| 2004 | 4,348,037 | \$721 million   |
| 2005 | 4,594,991 | \$919 million   |
| 2006 | 4,083,637 | \$840 million   |

Sources: Taiwan Bicycle Exporters' Association, Taiwan Bureau of Foreign Trade

figures from Eurostat, down from 3.5 million in 2005. German manufacturers exported about 480,000 bikes, up from 380,000 the year before.

France imported about 360,000 fewer bikes in '06 than '05, and early estimates are that sales fell by more than a half-million units.

Italy, second only to Taiwan as an exporter to the rest of Europe, had a flat year, reported Pietro Nigrelli, head of the bicycle division of the trade association ANCMA. He estimated about 2 million sales, and 2.5 million produced in Italy, which also imported about 770,000 units. **BRAIN**

### Top Sources of E.U. 25 Bicycle Imports (Unit figures in millions; by 2006 ranking)

| Country            | 2002   | 2003   | 2004   | 2005   | 2006*  | % Change '05-'06 |
|--------------------|--------|--------|--------|--------|--------|------------------|
| Taiwan             | 2.185  | 2.116  | 2.379  | 2.740  | 2.729  | 0%               |
| Italy              | 1.329  | 1.553  | 1.543  | 1.210  | 1.329  | 10%              |
| Thailand           | 0.179  | 0.326  | 0.451  | 0.696  | 0.691  | -1%              |
| Poland             | 0.623  | 0.766  | 0.849  | 0.920  | 0.664  | -28%             |
| China              | 1.501  | 2.018  | 2.328  | 1.306  | 0.689  | -47%             |
| Philippines        | 0.533  | 0.624  | 0.542  | 0.648  | 0.594  | -8%              |
| Vietnam            | 0.730  | 1.383  | 1.897  | 1.194  | 0.423  | -65%             |
| Total, Extra EU    | 6.195  | 7.997  | 9.325  | 9.142  | 8.609  | -6%              |
| Total, Intra EU    | 5.316  | 6.020  | 6.632  | 7.650  | 6.045  | -21%             |
| Total, All Sources | 11.512 | 14.019 | 15.959 | 16.792 | 14.407 | -14%             |

(Source: Eurostat. \*Not all 2006 data available)

### Taiwan Exports of Complete Bicycles, 2006

| Country        | Units     | Value/\$1,000 | \$/ASP |
|----------------|-----------|---------------|--------|
| United Kingdom | 783,512   | 101,444       | 129.47 |
| United States  | 564,952   | 202,568       | 358.56 |
| Germany        | 440,072   | 74,954        | 170.32 |
| Belgium        | 304,601   | 53,927        | 177.04 |
| Netherlands    | 288,014   | 74,264        | 257.85 |
| Sweden         | 278,046   | 26,013        | 93.56  |
| Japan          | 205,777   | 39,886        | 193.83 |
| Denmark        | 119,094   | 140,040       | 117.89 |
| Australia      | 103,507   | 40,195        | 388.83 |
| Canada         | 100,848   | 38,679        | 383.54 |
| All Others     | 895,214   | 187,506       | 209.45 |
| 2006 Total     | 4,083,637 | 839,436       | 205.56 |
| 2005 Total     | 4,594,991 | 918,720       | 199.94 |
| 2004 Total     | 4,348,037 | 720,746       | 165.76 |

### World Players in The Bicycle Market (Figures in Million Units)

| Area             | Production |       |       |       |       |       |        |
|------------------|------------|-------|-------|-------|-------|-------|--------|
|                  | 2000       | 2001  | 2002  | 2003  | 2004  | 2005  | 2006   |
| China            | 52.2       | 51.2  | 63    | 73    | 73    | 80.73 | *79.50 |
| Taiwan           | 8.0        | 5.0   | 4.4   | 4.3   | 4.4   | 4.7   | 4.3    |
| European Union** | 12.3       | 10.5  | 10.2  | 10.38 | 10.35 | 10.3  | *10.0  |
| United States    | 0.88       | 0.91  | 0.41  | 0.35  | 0.335 | 0.191 | 0.3    |
| Japan***         | 4.7        | 4.18  | 3.08  | 2.51  | 2.45  | 1.93  | *1.38  |
| Italy            | 3.2        | 2.65  | 2.35  | 2.55  | 2.6   | 2.5   | *2.5   |
| Germany          | 3.3        | 2.99  | 3.05  | 3.19  | 2.92  | 2.9   | 1.98   |
| France           | 1.9        | 1.6   | 1.42  | 1.49  | 1.73  | 1.6   | *1.3   |
| Imports          |            |       |       |       |       |       |        |
| China            | N/A        | N/A   | N/A   | N/A   | N/A   | N/A   | N/A    |
| Taiwan           | N/A        | N/A   | 0.07  | 0.29  | 0.62  | 0.68  | 0.50   |
| European Union** | 9.41       | 8.52  | 10.20 | 12.27 | 14.05 | 15.40 | *14.4  |
| United States    | 20.3       | 16.40 | 19.30 | 18.20 | 14.05 | 19.60 | 18.06  |
| Japan***         | 6.2        | 7.09  | 8.33  | 8.70  | 9.14  | 9.14  | 9.45   |
| Italy            | 0.22       | 0.45  | 0.45  | 0.47  | 0.62  | 0.82  | 0.77   |
| Germany          | 2.3        | 1.80  | 2.00  | 1.62  | 2.45  | 3.49  | 2.43   |
| France           | 1.4        | 1.10  | 1.45  | 0.16  | 2.30  | 2.93  | 2.57   |
| Exports          |            |       |       |       |       |       |        |
| China*           | 32.80      | 34.94 | 46.09 | 50.84 | 51.75 | 53.58 | 52.0*  |
| Taiwan           | 7.53       | 4.80  | 4.20  | 3.88  | 4.35  | 4.59  | 4.10   |
| European Union** | 3.90       | 3.63  | 4.32  | 5.19  | 5.70  | 6.10  | 5.80   |
| United States    | 0.18       | 0.19  | 0.16  | 0.13  | 0.16  | 0.19  | 0.10   |
| Japan***         | 0.56       | 0.56  | 0.65  | 0.87  | 1.00  | 1.22  | 1.32   |
| Italy            | 1.75       | 1.41  | 1.42  | 1.59  | 1.55  | 1.35  | 1.25   |
| Germany          | 0.25       | 0.23  | 0.26  | 0.51  | 0.56  | 0.38  | 0.48   |
| France           | 0.33       | 0.30  | 0.37  | 0.53  | 0.72  | 0.88  | 0.87   |

\*Estimated; 2006 data not available at press time.

\*\*EU 15 only: Import/export figures include imports from both EU members and non-members; some 2006 data not yet available.

\*\*\*December data estimated. Japanese export figures include indeterminate numbers of discarded bikes impounded, then exported to third-world countries as charity.

Sources: ANCMA, Bicycle Retailer and Industry News, Bike Europe, Cycle Press, China Bicycle Association, European Bicycle Manufacturers Association, Eurostat, Japan Bicycle Promotion Institute, Shimano, Taiwan Bicycle Exporters Association, Wheel Giant



# End of Road Surge Contributes to Specialty Retail Sales Decline

BY JASON NORMAN

While 2005 set the bar higher than it's ever been with almost \$6.2 billion in total retail sales, 2006 came in off that record pace at about \$5.8 billion, showing a 6 percent decline.

"If 2005 were taken out of the picture, 2006 would be the best year for retail sales of bicycles and related clothing, shoes and other cycling gear over the [past] four years," said Jay Townley of the Gluskin Townley Group, citing its own data along with The Cycling Consumer of the New Millennium Report.

The reason for the slide is due in large part to 700c road bikes. In 2005, high-value 700c road bikes sold in record numbers. In 2006, low-value 700c road bikes sold at mass merchants such as Wal-Mart and Target for the first time at retail prices below \$200, according to Townley.

"There are some in the industry that are predicting that the road 700c surge has ended for the specialty bicycle retail channel of trade," Townley said. "That high-end bicycles overall will start to decline in favor of mid-priced hybrid and comfort models—signaling a decline in retail revenue from bicycle sales. Time will tell if this is near-term speculation or a long-term trend."

The initial road surge was generally attributed to the enthusiast segment of the market upgrading and buying new top-end road bikes, according to Townley. A secondary contributor was the increase in triathlon participants.

"The drop-off and subsequent inventory build was more the result of simple saturation," Townley said. "The enthusiast segment of adult riders—which is finite—purchased all they could, and will ride what they have purchased for a while."

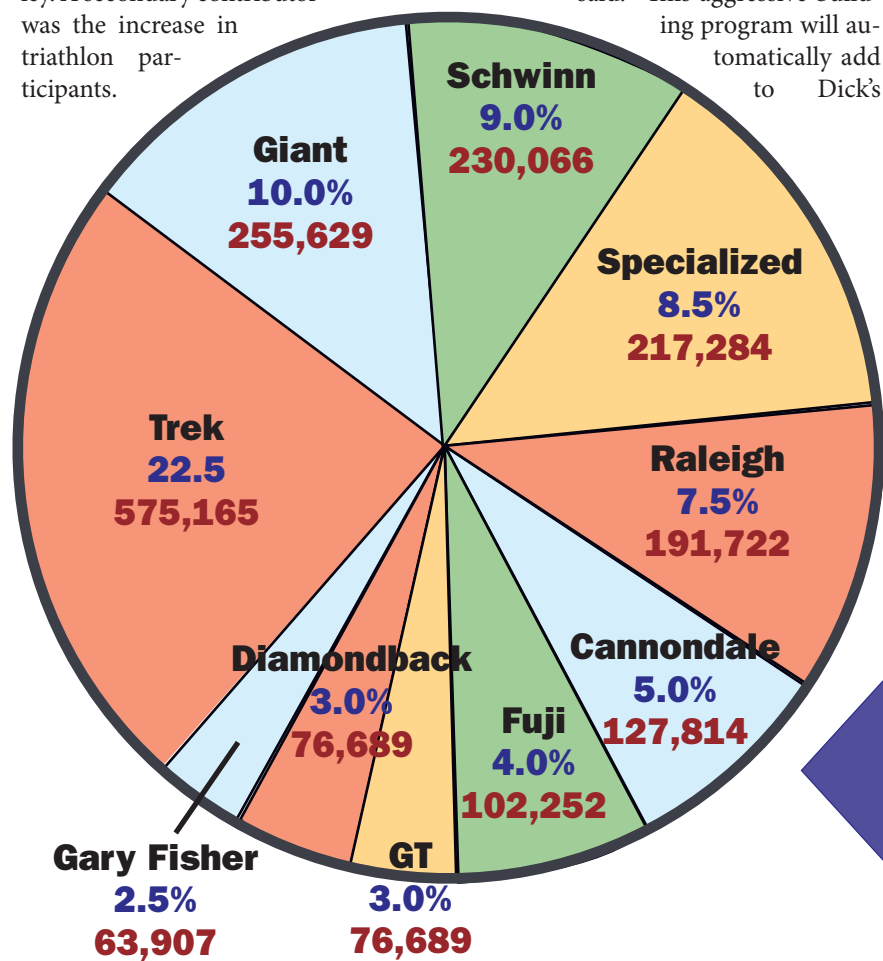
The so called "Lance factor" had little, if nothing, to do with the surge ending, Townley said. "Most analysts think it was simple saturation," he added.

**Specialty Retail Sales Slide.** Specialty retailers took the biggest hit from the overall sales decrease. In 2006, specialty retailers sold 2.6 million units, 14 percent of the total units sold. In 2005, the channel sold 3.2 million units, which accounted for 16 percent of the total units.

While mass merchants and sporting goods chains did see a drop off in units sold, they lost little when it came to percentage of total units—mass merchants sales only dropped 1 percent from 2005 to 2006.

Townley believes chain sporting goods to be the biggest "up-and-coming challenger" to both the mass merchant and specialty retailer in the years to come, with Dick's Sporting Goods leading the way.

"Dick's still isn't a national retailer, but it has announced plans to build over 900 new locations in the states where it does not now have stores," Townley said. "This aggressive building program will automatically add to Dick's



|  | 2002           | 2003           | 2004           | 2005           | 2006*          |
|--|----------------|----------------|----------------|----------------|----------------|
| Athletic & Sport Clothing: Cycling   | 625.1          | 672.9          | 757.6          | 784.1          | 819.0          |
| Athletic & Sport Footwear: Cycling Shoes   | 45.5           | 42.0           | 42.5           | 49.5           | 50.0           |
| Recreational Transport: Bicycles & Supplies  | 4,961.3        | 4,736.0        | 4,897.7        | 5,342.9        | 4,940.0        |
| <b>Total:</b>  | <b>5,631.9</b> | <b>5,450.9</b> | <b>5,697.8</b> | <b>6,176.5</b> | <b>5,809.0</b> |
| *forecast  |                |                |                |                |                |
| Source: The National Sporting Goods Association (NSGA): The Sporting Goods Market in 2006. |                |                |                |                |                |

annual sales of bicycles over the eight to 10 years it will take to complete the expansion plan."

Townley believes specialty retailers are their own worst enemy. "The specialty bicycle retailer is too narrowly focused on the enthusiast adult cyclist, who is predominantly white males," Townley said. "The brand/suppliers and the majority of bike shops have ignored women, ethnic diversity and non-enthusiast baby boomers."

Lack of customer service, Townley said, also isn't helping the specialty retailer. "Most bike shops both ignore and succeed in scaring off everyone except the enthusiasts who are members of the exclusive club environment of too many retailers in our channel," Townley said. "If [specialty retailers] die, it will be at their own hand."

**Category Catalyst?** The numbers don't lie for 2006: hybrid/cross bikes saw the biggest percentage increase over 2005. Cruiser and 700c road also saw gains, but perhaps the new category in the future will be Shimano's Coasting.

"Watch the new Coasting product

that three brands have introduced and will launch this spring with the assistance of Shimano in 15 markets around the U.S.," Townley said.

Shimano selected 15 markets because they are bicycle friendly—one of the prerequisites its research indicated had to be present for more baby boomers to get back on a bicycle. "If this large market test gains traction for Coasting within the comfort product category, a major increase in sales volume may be in the offering," Townley added.

Coasting could very well be what the baby-boomer crowd is looking for. A no fuss, no muss comfort bike with automatic shifting providing an enjoyable riding experience. "If the specialty bicycle retail channel of trade doesn't take full advantage of the Coasting concept, some other retail channel or channels will," Townley said. "The opportunity is that big."

As far as mountain bikes go, 2006 numbers indicate no big surprise in that consumers want full-suspension offerings, while front-suspension and rigid mountain bikes continue to lose traction.

## Specialty Bicycle Retail Channel Estimated 2006 Retail Sales Of Bicycles By Brand

2006 Percent Share  
2006 Estimated Units

|  |               |                  |
|--|---------------|------------------|
| <b>Top Tier Brands</b>                   |               |                  |
| <b>Sub Total:</b>                        | <b>75.0%</b>  | <b>1,917,217</b> |
| <b>All Other Brands</b>                  | <b>25.0%</b>  | <b>639,071</b>   |
| <b>Total Estimated SBR Retail Sales:</b> | <b>100.0%</b> | <b>2,556,288</b> |

Source: 2007 Bicycle Leadership Conference Business Information Group; NBDA Surveys and Research Reports; The Gluskin Townley Group, LLC Estimates.

## 2006 U.S. Bicycle Apparent Market Consumption by Channel of Trade

| Channel      | Units*            | Percent Units | Dollars*               | Percent \$    | Average      |
|--------------|-------------------|---------------|------------------------|---------------|--------------|
| MM           | 13,876,990        | 76.0%         | \$999,143,315          | 37.7%         | \$72         |
| SBR          | 2,556,288         | 14.0%         | \$1,150,329,474        | 43.4%         | \$450        |
| OSR          | 182,592           | 1.0%          | \$77,601,592           | 2.9%          | \$425        |
| CSG          | 1,095,552         | 6.0%          | \$246,499,173          | 9.3%          | \$225        |
| Other        | 547,776           | 3.0%          | \$178,027,181          | 6.7%          | \$325        |
| <b>Total</b> | <b>18,259,198</b> | <b>100.0%</b> | <b>\$2,651,600,734</b> | <b>100.0%</b> | <b>\$145</b> |

### Definitions:

**MM = Mass Merchants**

**SBR = Specialty Bicycle Retailers**

**OSR = Outdoor Specialty Retailers, including Camping, Outdoor Shops, Ski Shops, etc.**

**CSG = Chain Sporting Goods, or Full-Line Sporting Goods**

**Other = Catalog, Internet, Hardware Stores**

\*Estimated

Source: NBDA Research Reports, Gluskin Townley Group, LLC market statistics, estimates and projections.

## Specialty Bicycle Retail Channel 2005 and 2006 Estimated Unit Sales By Product Category

| Product Category     | 2005         | 2005 Est.        | 2006 Est.    | 2006 Est.        |
|----------------------|--------------|------------------|--------------|------------------|
|                      | Percent      | Units            | Percent      | Units            |
| Mtn Front Susp       | 16.60        | 456,314          | 16.50        | 421,788          |
| Mtn Full Susp        | 6.60         | 181,426          | 7.00         | 178,940          |
| Mtn No Susp          | 5.60         | 153,937          | 5.00         | 127,814          |
| All Mtn Sub Total:   | 28.80        | 791,677          | 28.50        | 728,542          |
| Comfort              | 14.20        | 390,341          | 14.00        | 357,880          |
| Hybrid/Cross         | 13.90        | 382,094          | 15.00        | 383,443          |
| Cruiser              | 5.50         | 151,188          | 6.00         | 153,377          |
| Road/700c            | 16.40        | 450,816          | 17.00        | 434,569          |
| Freestyle            | 3.70         | 101,708          | 3.00         | 76,689           |
| BMX                  | 5.10         | 140,193          | 4.50         | 102,252          |
| Youth 19"            | 3.00         | 82,466           | 3.00         | 76,689           |
| Youth 20"            | 4.20         | 115,453          | 4.00         | 102,252          |
| Youth 24"            | 2.80         | 76,969           | 2.50         | 63,907           |
| All Youth Sub Total: | 18.80        | 516,789          | 16.50        | 421,788          |
| Other                | 2.4          | 65,973           | 3.00         | 76,689           |
| <b>Totals:</b>       | <b>100.0</b> | <b>2,748,877</b> | <b>100.0</b> | <b>2,556,288</b> |

Sources: U.S. Department of Commerce Import Statistics for 2005 and 2006; Gluskin Townley Group estimates for 2005, and 2006, excluding exports.

**Top Tier Brands Lose Steam.** Trek has been at the mountaintop for quite some time, followed by rivals Specialized and Giant.

But it seems competition is taking sales away from the top-tier brands. All three brands saw their specialty retail market share shrink in 2006.

"The biggest story associated with the top-tier brands is the lack of barriers in an intensely competitive market over the last decade creating an expansion of bicycle brand choices to over 278 in 2006," Townley said.

This leads to the conclusion that "the 80-20 rule is no longer applicable to our channel of trade," Townley said.

"The top tier has been slowly losing volume, not just to each other, but overall to the 260 bicycle brands in the second and third tier of the supply side of the channel," Townley said.

Despite retail consolidation, the top-

tier brands will likely stay with the bike shop channel long-term, meaning that they will be in a continuing struggle to maintain their share in the specialty channel, according to Townley.

That could be the reason Trek and Specialized are leading the push into concept stores. "The top tier gets more floor space of their 'concept' stores and retailers," Townley said. "Keeping the competitive brands out."

The primary problem with this strategy, Townley said, is it's being deployed in a U.S. bicycle marketplace that is locked in a state of "perfect competition." Everyone is a "price taker," and no brand, supplier or retailer can affect the channel pricing.

This, Townley said, fosters growth of second- and third-tier brands "as retailers search for higher margin product to increase their overall operating gross margin and net profit." **BRAIN**

## 2006 U.S. Bicycle Market Features of Channels of Distribution

| Mass Merchant   | Specialty Bicycle Retail  | Chain Sporting Goods  | Other  |
|---|---|---|--|
| 13.9 million units, 76% of the total units.   | 2.6 million units, 14% of the total units.  | 1.1 million units, 6% of the total units.   | 550,000 units, 3% of the total units.  |
| Four large retailers that do 60% of Mass Market channel total, or over 40% of all retail sales:<br>• Wal-Mart<br>• Kmart<br>• Target<br>• Toys-R-Us   | 4,450 independent, specialty bicycle retailers. (Note: Performance retail stores are included.)   | 30 sporting goods retailers:<br>• Sports Authority/Gart<br>• Champs Sports<br>• Dick's Sporting Goods/Gallions<br>• JumboSports<br>• Sportmart  | A variety of outdoor / outside retailers, mail-order and Internet retailers and all other local and regional retailers of bicycles.<br>• Mail-Order<br>• Internet<br>• Hardware Stores   |
| \$999-million in annual bicycle retail dollars, 37.7% of total annual bicycle retail dollars.   | \$1.1 billion in annual bicycle retail dollars, 43.4% of total annual bicycle retail dollars.   | \$246 million in annual bicycle retail dollars, 9.3% of total annual bicycle retail dollars.  | \$178 million in annual bicycle retail dollars, 6.7% of total annual bicycle retail dollars.   |
| \$72 average unit retail price  | \$450 average unit retail price   | \$225 average unit retail price   | \$325 average unit retail price  |
| <b>Major Bike Suppliers</b><br>• Pacific Cycle<br>Mongoose<br>Roadmaster<br>• Dynacraft<br>Bicycles<br>Magna<br>• Huffy Bicycles<br>Royce Union<br>• Rand<br>International<br>• Kent<br>International   | <b>Major Bike Suppliers</b><br>• Trek Bicycle Corp.<br>• Giant Bicycle Inc.<br>• Specialized<br>• Raleigh America<br>• Pacific Cycle<br>Schwinn<br>GT<br>• Cannondale<br>• Haro<br>• Redline<br>Plus over 260 additional brands and suppliers.                      | <b>Major Bike Suppliers</b><br>• Huffy Bicycles<br>Royce Union<br>• Raleigh America<br>Diamondback<br>• Pacific Cycle<br>Mongoose<br>Schwinn<br>GT<br>• K2<br>• Haro  | <b>Major Bike Suppliers</b><br>• Pacific Cycle<br>• Dynacraft<br>Bicycles<br>• Huffy Bicycles<br>• Rand<br>International<br>• Kent<br>International  |
| MM channel stocks and sells a limited selection of bicycle parts and accessories, and some clothing. It is estimated that the MM channel does between 22 and 24% of the annual aftermarket business at retail. \$742 to \$809 million estimated aftermarket retail dollars. | SBR channel stocks and sells the widest selection of bicycle parts and accessories, clothing and shoes. It is estimated that the SBR channel does between 30 to 31% of the annual aftermarket business at retail. \$1 billion estimated aftermarket retail dollars. | CSG channel stocks and sells a relatively wide selection of bicycle parts, accessories, clothing and shoes. It is estimated that the CSG channel does between 24 and 26% of the annual aftermarket business at retail. \$809 to \$877 million estimated aftermarket retail dollars. | The Other channel stocks and sells a wide selection of bicycle parts, accessories, clothing and shoes. It is estimated that the Other channel does between 19 and 24% of the annual aftermarket business at retail. \$641 to \$809 million estimated aftermarket retail dollars. |

Sources: The Gluskin Townley Group, LLC analysis; The Cycling Consumer of the New Millennium Report.

# For Second Year, Cycling Participation Shows Signs of Life

BY SEAN HONG

The good news is 2005 marked the second year in a row that the number of cycling participants increased in the United States. The bad news is the statistics once again indicate that bicycling remains a sport for a predominantly affluent, all-men's club.

According to numbers gathered from a sports participation study conducted by the National Sporting Goods Association (NSGA), 43.1 million people age seven or older hopped on their bicycles at least six times in 2005. That's a 7 percent increase over the 40.3 million people who made a half-dozen outings by bike in 2004.

In 2003, only 36.3 million people qualified as participants, the lowest number recorded on the NSGA study that went back to 1993.

"What jumps out is that in 2005, we had an uptick, and the hope is that maybe this is a reflection of the federal and state monies that have been put into [cycling] facilities," said Jay Townley of the Gluskin Townley Group.

"All it shows is that the trend line has now stopped declining. The two years of digging out of the hole don't yet signal an upturn, but they're encouraging," he added.

Despite two years of modest progress, bicycling participation still remains on the decline since the mid 1990s, when cycling participation rates skyrocketed during the mountain bike boom. In 1995, a prodigious 56.3 million people were classified as participants.

Townley is not overly dismayed by the shrinking number of cycling participants. He said that at the sport's peak in 1995, cycling ranked third in participation among all sports activities. In 2005, cycling was still a respectable sixth.

"That's not bad, given the fact that all sports activities suffer from the same thing—competition from video games and latchkey children who aren't allowed to play outside anymore," Townley said. "There's a lot of competition for where people spend their time, but there's still potential for growth."

Tom Doyle, NSGA's vice president of information and research, takes a more pessimistic view of cycling's growth potential given its current ranking among other activities.

"The number of people cycling is among the highest in all sports and recreational activities, which limits growth possibilities," Doyle said.

NSGA data indicates that the number of cyclists who ride "once or twice a month" has been edging up as a percentage of all cyclists. However, data shows these "infrequent" riders rarely purchase new equipment, if ever.

"The challenge—and it's true across many other sports and recreation activities—is to make frequent riders out of infrequent ones," Doyle said.

NSGA data indicates "frequent" riders (the top 25 percent of participants) are generally responsible for 60 to 70 percent of hard good purchases in almost all recreational categories.

Participation among people who ride their bicycles 110 days or more per year, identified as "frequent" cyclists, remained relatively steady compared to the declining number of regular participants. Since 1993, frequent participants have consistently comprised roughly 15 percent of the total number of participants, though the trend line dips downward slightly. The most recent figures show that 5.6 million people participated frequently in the sport in 2005.

"I think 'flat' is the theme here. We're at a pretty high level but it's not really growing. There have been trends within the overall number, such as the road bike boom, but overall we're seeing stability," said Fred Clements, executive director of the National Bicycle Dealers Association.

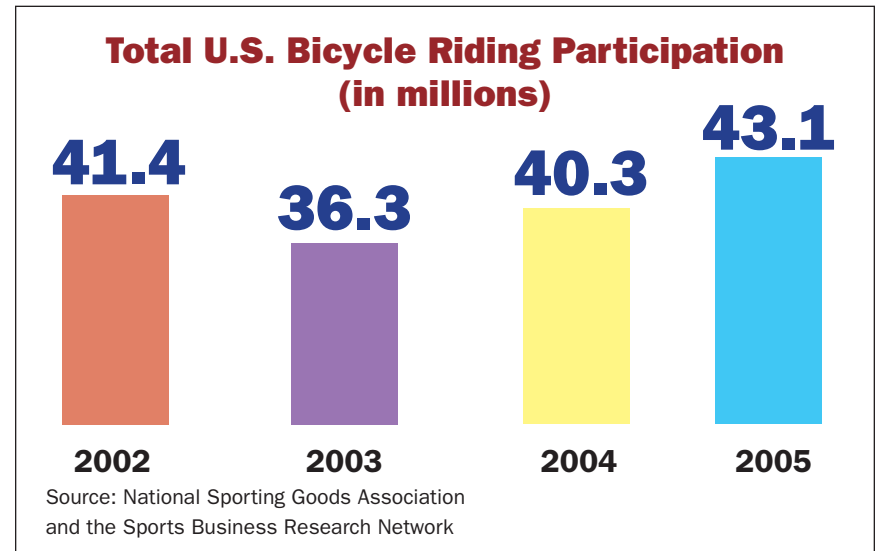
**Kids Versus Adults.** A two-category breakdown by age reveals that behavioral shifts in cycling participation affect children and juveniles about the same as adults.

Participants age 7-17 made up 39.9 percent of all cycling participants in 2005, the lowest percentage for this age group since 1993. However, the highest mark ever recorded for this age bracket was only 3.7 percent higher, which occurred in 1997 and again in 2001. The percentage of cyclists age 7-17 have consistently hovered around 40 percent since 1993.

Likewise, the percentage of cyclists

age 18 and up hasn't deviated much from the 60 percent mark. The year 2005 saw adults make up 60.1 percent of the participant population, with the low points occurring in 1997 and 2001, when the percentage dipped to 56.4 percent.

Because cycling participation data was only gathered for people ages seven and up, bicycles with 19-inch wheels or smaller were not considered



|                              | 2002  | 2003  | 2004  | 2005  |
|------------------------------|-------|-------|-------|-------|
| All Bicycling Participants   | 41.4  | 36.3  | 40.3  | 43.1  |
| Male Participants            | 22.5  | 20.4  | 21.6  | 24.2  |
| Female Participants          | 18.9  | 15.9  | 18.7  | 18.9  |
| Male Participation Percent   | 54.3% | 56.1% | 53.5% | 56.1% |
| Female Participation Percent | 45.7% | 43.9% | 46.5% | 43.9% |

\*In millions  
Source: National Sporting Goods Association and the Sports Business Research Network

|                               | 1993  | 1995  | 1997  | 1999  | 2001  | 2003  | 2005  |
|-------------------------------|-------|-------|-------|-------|-------|-------|-------|
| All Bicycling Participants    | 47.9  | 56.3  | 45.1  | 42.4  | 39.0  | 36.3  | 43.1  |
| \$49,999 and Under            | 30.7  | 35.9  | 24.9  | 22.1  | 17.8  | 14.4  | 19.7  |
| \$50,000 and Up               | 17.3  | 20.6  | 20.3  | 20.2  | 21.2  | 21.9  | 23.4  |
| Percentage \$49,999 and Under | 64.1% | 63.8% | 55.2% | 52.1% | 45.6% | 39.7% | 45.7% |
| Percentage \$50,000 and Up    | 36.1% | 36.6% | 45.0% | 47.6% | 54.4% | 60.3% | 54.3% |

\*In millions  
Source: National Sporting Goods Association

|                                       | 1993  | 1995  | 1997  | 1999  | 2001  | 2003  | 2005  |
|---------------------------------------|-------|-------|-------|-------|-------|-------|-------|
| All Bicycling Participants            | 47.9  | 56.3  | 45.1  | 42.4  | 39.0  | 36.3  | 43.1  |
| Participants with Income of \$75,000+ | 6.9   | 8.6   | 9.5   | 10.2  | 11.9  | 13.3  | 15.0  |
| Percentage \$75,000 and Up            | 14.4% | 15.2% | 21.0% | 24.1% | 30.5% | 36.6% | 34.9% |

\*In millions  
Source: National Sporting Goods Association



in the NSGA report.

According to the Bicycle Industry Statistics Desk Reference, which was prepared by the BLC Business Information Group and released during February's Bicycle Leadership Conference, one major challenge facing the industry is determining a strategy to lure more members of the 7-17 age group into cycling.

The 17.2 million children and juveniles that participated in bicycling in 2005 represent far less than half of the 54.4 million children and juveniles living in the United States. A full 37 million more youths remain an untapped market—and an attractive one at that, given the potential for turning them into lifelong cycling consumers.

One segment of the youth population that looks particularly accessible and promising is the under-18 group that is identified as residing in a household with an adult cycling participant.

In 2005, 27.2 million, or 63.1 percent of all bicycling participants lived in a household with at least one child under 18.

Given the important role children and juveniles play in the purchasing decisions of a household within certain categories, these figures on the youth market are a good reminder that it could be worthwhile for the industry to emphasize the family-friendly nature of bicycling.

**Sport of the Privileged?** Take one look at the numbers of bicycling participants with household incomes over

\$50,000 and those with incomes under that benchmark, and an interesting trend emerges.

Participants with household incomes under \$49,999 since 1993 have participated at rates very similar to the entire pool of participants—that is, their peaks and valleys coincide neatly with that of the participation levels among all bicycling participants.

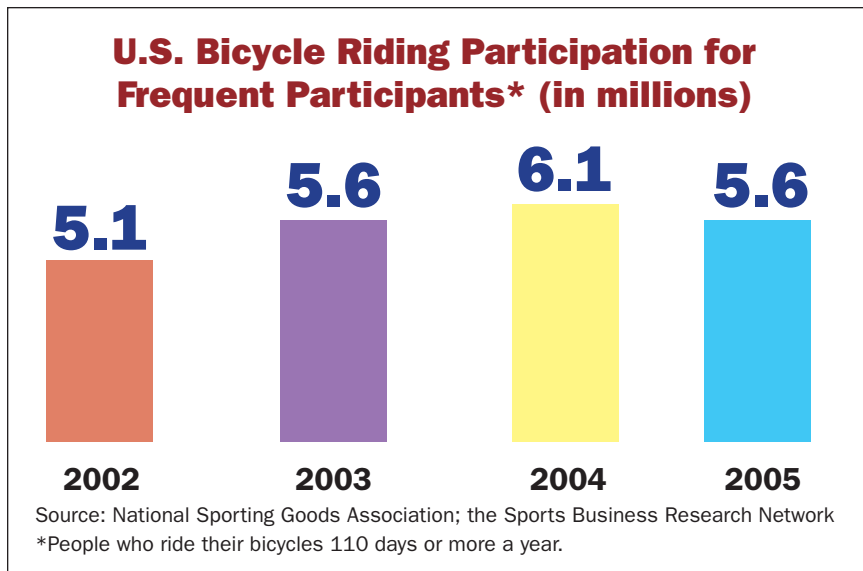
Despite the general declining rate of participation among all cyclists, those with incomes \$50,000 and up are steadily increasing their participation in cycling.

“What we’re seeing is that cycling has become an activity of higher income households. There’s no denying that. Cycling as a sports activity in the United States is skewing toward higher household incomes for casual, fitness and recreational riding,” said Townley, who partially attributes this income gap to the exploding baby-boomer market.

Breaking down the participation rates by smaller, more detailed income brackets reveals that cycling participation rates are the lowest in low-income households, and get progressively higher with each step up the income ladder.

Clements, however, sees no reason why bicycling need be considered a sport of the affluent.

“Cycling can be very affordable and using a bike is free. It’s true that the U.S. is primarily a recreation market driven by people with disposable income, but we’re much more. Cycling is more than just a game like golf. Cy-



cling as transportation is increasingly becoming a viable option for people of all income groups,” Clements said.

**Lack of Diversity.** According to Townley, the enthusiast subculture is over 80 percent white and over 70 percent male. “[The bicycle industry] caters to above-average income, college-educated white males,” he said.

The lack of diversity in the industry—from race courses to shop floors—spells the first challenge of making cycling a more mainstream sport.

Females represent 51.1 percent of the total U.S. population, but can never seem to reach cycling participation numbers proportional to their demographic. In 2005, females comprised only 43.9 percent of the participant population.

The gender disparity becomes more pronounced at the high-end of the market.

“The consumer research shows that women are well represented in the casual and infrequent rider segments. As frequency of riding increases, the population becomes increasingly male,” Clements said.

He added that the trend can be reversed by tailoring more products and services to women. Improving cycling facilities would also go a long way toward bolstering participation.

For Townley, the reason behind the gender gap is simple.

“Customer service in the special-

ty bicycle retail channel stinks. It is worse than not good. A number of us have said this for some time,” he said.

“I love to mystery shop. I’m bald, I have a beard and I’m overweight. And I am totally ignored at some of the finest bike shops on a consistent basis. They don’t see me. They don’t see women,” he added.

Too many employees at the retail level speak condescendingly to—or even worse, casually dismiss—shoppers who fall outside of the white male demographic, Townley said. The result is that many people avoid the displeasure and never step foot in a bike shop.

“We need to change the culture of the channel so that we are focusing on the experience, not the product. We also have to make sure that the people that populate the shops understand clearly that they’re there to serve the consuming public,” Townley said.

Townley points out a case study from the book “Blink,” by Malcolm Gladwell, in which city orchestras during the 1970s suffered from an endemic prejudice, avoiding the hiring of women due to their alleged musical inferiority.

Upon becoming unionized, orchestra selection committees were forced to listen to auditions where, through the use of screens, the musician’s identity was completely shielded from the judges.

Once the hiring committees made their decisions based solely on the sound of the musical instruments, the result was that women began to be selected in droves, and the female inferiority myth quickly died out.

Reinvigorating the participation, culture and sales of bicycles will require a similar overhaul of our current model, Townley suggests.

“To break this cycle finally, shops need to become consumer-centric. They need to break the pattern of white male domination. Put women on staff. Above all, start hiring for personality,” he said. **BRAIN**

### Bicycle Riding Participation By Household Income in 2005

|                   | Percent of Total U.S. | Number of Participants | Percent of All Riding Participants |
|-------------------|-----------------------|------------------------|------------------------------------|
| Under \$15,000    | 17.0%                 | 4,180,700              | 9.7%                               |
| \$15,000-\$24,999 | 13.2%                 | 3,792,800              | 8.8%                               |
| \$25,000-\$34,999 | 13.4%                 | 4,008,300              | 9.3%                               |
| \$35,000-\$49,000 | 16.0%                 | 7,714,900              | 17.9%                              |
| \$50,000-\$74,999 | 19.0%                 | 8,361,400              | 19.4%                              |
| \$75,000+         | 21.4%                 | 15,041,900             | 34.9%                              |

Source: National Sporting Goods Association

### Total U.S. Bicycle Riding Participation by Age Group (7-17 Years of Age Versus 18-75+)\*

|                                | 1993  | 1995  | 1997  | 1999  | 2001  | 2003  | 2005  |
|--------------------------------|-------|-------|-------|-------|-------|-------|-------|
| All Bicycling Participants     | 47.9  | 56.3  | 45.1  | 42.4  | 39.0  | 36.3  | 43.1  |
| 7-17 Years of Age              | 20.0  | 22.9  | 19.7  | 18.1  | 17.0  | 15.1  | 17.2  |
| 18-75+ Years of Age            | 27.9  | 33.4  | 25.4  | 24.3  | 22.0  | 21.2  | 25.9  |
| Percentage 7-17 Years of Age   | 41.8% | 40.7% | 43.6% | 42.7% | 43.6% | 41.7% | 39.9% |
| Percentage 18-75+ Years of Age | 58.2% | 59.3% | 56.4% | 57.0% | 56.4% | 58.3% | 60.1% |

\*In millions

Source: National Sporting Goods Association