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“Peak Bikes” Never Came...

Wayne Thompson, 2 December 2009

For years the US bike industry counted on higher oil prices, caused either by supply issues or taxation to get back to the glory years of selling 20+ m units a year. Heard in the halls of the largest brands in the US was a constant reminder that the pie would be bigger for everyone when gas hit \$3 a gallon. People would abandon their SUV's and replace it with a bicycle as 40% of all car trips in the US are said to be 2 miles or less. You don't need to be in shape or a cycling fanatic to ride 2 miles they would say. This dream unraveled in 2008-09, and we are now sitting on mounds of overstock bicycles. Wayne Thompson is founder of start-up Kind Bicycles and previously a logistics executive for the largest U.S. based bike importer. Thompson recently formed ClaretBlue Partners, a consultancy focused on visibility, transparency and compliance within the supply chain.

In early 2007, gas hit \$3 a gallon and expectations ran high that demand would run up to a new level. But nothing happened. There was no boom in demand. Gas prices receded below \$3 for the summer of '07 and \$3.50 became the new \$3. In late 2007 as oil prices started to climb weekly, there was a flurry of activity in the bike media about more people commuting by bike and how this was great news for the industry. The evidence was anecdotal at best. There were no numbers suggesting sales or participation had increased. Sales were approximately 18 m units for 2007, right in the range they had been for the past 10 years. Participation had increased slightly but was steady around 37 m participants. It should be noted the high water mark for bike sales was 22 m units in 1977 (not a typo) and participation was highest in 1992 with 53 m people riding their bike at least once a week.

The mass media picked up the story line as oil continued its meteoric climb through early 2008. Stories in the New York Times and other outlets were professing a bike boom in light of high gas prices. Indeed, certain cities were enjoying a renaissance (Portland and NYC are two examples), and niche products within the industry serving urban markets and fixed gear fashion were gaining traction. Bike shops across the country were busier than ever and according to the National Bicycle Dealers Association (NBDA) sales were up dramatically (double digits) even though independent bike dealers (IBD) have shrunk from 6,000 in 2000 to about 4,000 stores today.

As the “peak bikes” story began to unfold as the traditional sales and riding season wore on, there was unsettling data coming in on the import front: importation of bikes into the US through May 2008 was off 10%. Given that 99% of all bikes sold in US are imported (annual FEU approx 50,000 (100,000TEU) for industry), something was amiss. How could the industry be enjoying boom times when in fact suppliers were backing off their orders? Did they go into the 2008 season heavy? This is always part of the equation. Old inventory piles up, the new comes in over top of it at year end, resulting in markdowns to the retailers. But this was not an abnormal year, imports and sales had held steady in 2007.

By June of '08 the retail picture had cleared up a little. Sales of high end sport specific bikes in the IBD were falling and being replaced by mid-priced hybrid type bikes used for commuting/errands but not at the sales rate. IBD's were in fact having a banner year, but it was not bike sales driving it – it was service – up

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approximately 25%. Bikes sold through the IBD amount to 4.5 m units with the rest sold in big box and mass market channels. The IBD accounts for 50% of the total dollars. The industry, including mass, parts and accessories is about \$6 billion.

Still, the industry at large, seemingly ignoring the trends, placed a bet as oil was peaking in July of '08. The feel good stories about cycling were at some point going to translate into sales across all channels. Even though the high end was falling, the mid-priced practical urban bikes were what customers were interested in and clamoring for. Orders for 2009 product were written. Just as gas prices crested at \$4 a gallon, consumers still unaware of the economic tsunami coming, further tightened their wallets on discretionary purchases. This was felt even more so at the mass market level but with lead times in the industry averaging 90-120 days, the '09 product was on its way.

With oil prices collapsing and the economy just about to hit rock bottom when Interbike, the annual industry trade show, came around in late September, the industry was still riding a high based on shop sales over the summer. It was reported in October of '08 that factories were at capacity and experiencing the largest production runs in years. This news defied all logic based on updated import and sales numbers. The import numbers had made up some ground over the summer to approx 5% less than 2007 and had caught up by years end. Sales however had all but stopped in the IBD in most markets in June and by July in the mass. **Virtually every brand had overstock of '08 product with '09 stock on its way. The good news was that ridership in '08 did increase significantly to 44 m people riding at least once a week, but they are riding bikes they already owned, not buying new ones.** How would this play out in '09?

The industry resorted to the tactic of discounting the '08 product which dealers bought up on the cheap. With consumer confidence declining by the day in late '08 and early '09, bike sales stagnated resulting in closeouts selling slower than normal. Coupled with the IBD's inability to access credit, they were sitting on old inventory unable to buy new models.

According to NBDA inventory data (which does not encompass the entire industry) suppliers that share data were sitting on \$250 m worth of inventory coming into 2009. While this is not a big number relative to other industries, it is significant when viewed as a percent of IBD sales, and the fact that after the peak selling season, they are still sitting on \$250 m.

And guess what? 2010 product has already arrived or is on its way. Import numbers through September of 2009 are down 15% over 2008. The activities of the two largest OEM component suppliers, Shimano and SRAM, are predicting a 20% drop in sales this year.

The NBDA recently quoted sales in the IBD are off 5% in 2009. Yes, service is a part of it. So is selling accessories to all of those new participants. But with the same amount of inventory on hand today as was on hand a year ago, import numbers off 15% and key suppliers down 20%, the inventory situation for the IBD and the mass market is not going to clear up anytime soon. Some estimate that it will be next summer before the backlog clears and that assumes ridership levels stay the same and consumer confidence increases.

The bike industry is famous for its endearing optimistic outlook. The same mistakes in relation to inventory are made year after year. Any bike enthusiast will tell you they wait until the fall to pick up bikes, parts and accessories at pennies on the dollar. The bet made in '08 as oil was peaking was made again as the industry was sitting on the overstock from that gamble. This time it was more utilitarian bikes, slightly different specification and lower prices. The industry thought it could increase ridership through better suited product. For the summer of '09 at least, it did not pay off. It may need an external force to drive ridership in the US and eventually drive sales, but high gas prices are proven not to be the answer. Many now believe bicycling infrastructure is the key to increasing ridership. It has worked in Portland with increased paths, lanes, bike boxes and storage. We will find out in the coming years as more transportation dollars are being appropriated to bicycle infrastructure. The industry is banking on it.

Until then, '09 product is still sitting in warehouses with 2010 on its way. The main activity for all brands over the next few weeks: a pilgrimage to Taiwan, to visit mini-trade shows and start finalizing bikes for 2011...

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