'Bicycle industry still highly attractive for investors'

Jan-Willem van Schaik

The challenges currently faced by the bicycle industry are not exclusive, but rather common for every industry supplying consumer markets. – Photo Ralf Kindermann

“The challenges currently faced by the bicycle industry are not exclusive, but rather common for every industry supplying consumer markets. Except for companies delivering luxury products,” says Ralf Kindermann. “Macroeconomic issues together with crisis like the wars in Ukraine and the Gaza Strip drove down consumer confidence all over Europe and particularly in Germany. This created a new momentum for discount stores, DIY markets, and private label products on a low entry price level. Also the market for luxury goods is less impacted as this category is not so sensitive to those market uncertainties. However, the majority of the market is underperforming.”

In recent history, the average retail price for bicycles sold in Germany hiked. How do you explain that?

In Germany and some other countries, we have seen a structural change in consumer spending behavior. Bicycles have become an important mobility product and also kind of a status symbol. So, it's somewhere in between commodity and luxury I would say. These days more people are spending more money on a bike. They allocate more of their spendings to bicycles and secondly, a lot of these bikes are leased and this makes it very reasonable to spend a higher average amount. The monthly leasing payments for a €5,000 or a €7,000 bike only slightly differ.

On the other hand, we have seen a shift in consumer spending after the pandemic. In 2020-2022 people bought a lot of bicycles because there was no room for their biggest competitors: travelling and tourism. The hike in sales the industry experienced was artificial and had nothing to do with a sustainable increase in demand. After 2022 demand bounced back to 2018-2019 levels as the bicycle’s main competitors, travelling and tourism are back. Therefore, I expect a stable market in 2024 compared with 2023.

The problem is that the industry had to adjust to the normal situation while they had just adapted to the 2020-2022 hike. The crazy demand during the pandemic resulted in empty shops and too many people expected the e-bike market to expand year after year. To make sure to have sufficient inventory they ordered three different bikes from three different manufacturers and expected to receive one. This ended in an irrational acceleration of the production at bicycle manufacturers. That overproduction is still in the market. I estimate that the inventory levels are currently 1.5 to 2 times higher than average, but we are coming from 3 to 3.5 times more than average. To get from there to the current level, bicycles were highly discounted last year. Premium bicycle brands offered discounts up to 35% and still today you can have premium American brands for 20% off the price. Not surprisingly the industry is now facing a very challenging financial situation. While the dealers are not suffering so much, the manufacturers and especially the components makers are hit hard.

The industry talks a lot about Accell Group and Scott Bicycles. Are they the only ones facing financial challenges?

Certainly not, their situation is rather common for the industry and it has nothing to do with bad management. The structural problem for this industry is that the supply chain is not aligned. Industry peers have been talking about it for years, but not enough has changed. Due to the lack of synchronisation within the supply chain everybody is now looking for cash. The industry might overcome this issue by Q1 in 2025 but my biggest fear is that when this season runs normally, while everybody is still short in liquidity and keeping all orders on hold, we will see the first shortages popping up among the top sellers. The industry can only move forward when we connect demand levels throughout the supply chain, so from consumers, to dealers, to manufacturers and the component makers.

> The industry can only move forward when we connect demand levels throughout the supply chain”

Do you see any changes in management of the big companies to align their supply chain supply?

I’m afraid not. I see that everyone has realised it now, but over-inflation and COVID are often used as an excuse. A lot of new investors who entered the industry in the past 2-3 years don’t know yet how the industry normally works. The more experienced people might see the necessity for a change, but often have a very personal relation with their parts makers in Taiwan. We need to work on a transparent supply chain. If we don’t succeed, the industry will lose a lot of margins. The recognition is there, but everybody is now too busy firefighting and that’s not the right moment to work on your strategy. We will see more initiatives among the survivors after 2024. This process will be about digitalisation and creating connections between the consumers, dealers, manufacturers and component makers.

Do you expect this digitalisation is also an opportunity to make the industry more sustainable?

ESG requires product traceability in the supply chain. But I'm afraid it will not have an impact on demand levels and quantities. ESG is a qualitative measure which will be enforced by European legislation. It will also be required in future to get a bank loan. On the other hand, I think it will make products more environmentally compliant but also make companies more competitive against the Far East. Maybe a side effect could be that high quality suppliers in the Far East are also the better and more professional ones for the supply chain.

Do you expect that Taiwanese component manufacturers, which are often relatively small businesses, are capable of complying with all the European regulations and at the same time digitalize to fit into the supply chain system?

They are among the most flexible kinds of companies I met in my business life. Look at how they handle the current situation with the lowest order level in history. They somehow manage to cope with the low order intake. These relatively small production companies are somehow interconnected. They have cross shareholdings and they know each other and rely on one another. This gives them a very, very strong position.

The close proximity of the Chinese market is also very beneficial. We are talking about the challenges on the European and North American market, but China is booming. Giant already sent 40,000 new TCR road bikes they launched at Taipei Cycle Show to China.

Is the European bicycle industry still as attractive for investors as it was and how important are the short- and long-term indicators for them?

Past years' investors have changed the cycling industry landscape. Many of them are strategic investors and value the ESG component of the industry. Green mobility is upcoming and highly attractive. The bicycle industry is quite ahead on that. Also, leasing is an important component for investors. It is even better when companies combine two trends, like Dutch manufacturer Van Raam. They supply green mobility for disabled people. If your company is attractive, you will still find investors interested in cycling, but the boom we saw in 2020-2021 is over. Opportunistic investors are currently more looking to AI and Defence. They don’t care about long-term indicators. In general, I can say that the bicycle industry was always regarded as very basic, then somewhat exotic. That’s over now. Investors look at the bicycle industry as ‘normal’.