STATS

Bike Market Remains Flat

Increase in Sales Dollars Reflects Higher Cost of Manufacturing

BY MATT WIEBE

Bicycle unit sales last year were virtually unchanged from 2006, although dollar sales inched up slightly in the specialty market. Sales were up about 6 percent in the mass market and sporting goods channels.

The increase in dollar sales is attributable to unfavorable exchange rates and increasing manufacturing costs in China that suppliers have passed on to consumers. China remains the go-to country for bikes, with 96 percent of all bikes imported into the United States made there. Taiwan is a distant second at 3.8 percent.

"The average price of bikes at mass has risen and is rising because of non-stop price increases from China caused by currency and the shortage and price increases of steel," said Arnold Kamler, Kent International's president.

Kamler said the price of steel rose faster last year than anyone expected and may be partly responsible for slow mass-market sales.

Last year's imports of 18,111,060 units are unchanged from the previous year. However, the landed value of bikes increased 6 percent to $1.126 billion.

The jump in the value of bikes coming through the docks contributed to the bottom line of mass suppliers.

Dorel, whose Pacific Cycle division is the largest supplier of bikes in the United States, reported its bike sales climbed 10 percent last year, more than twice the sales growth reported by Bicycle Product Suppliers Association members.

The value of imports with 700c wheel sizes was up 18 percent over last year, the largest category gain. It appears that mass-market and sporting goods stores brought in much higher-value 700c bikes than before.

Wal-Mart, the largest retailer of bikes in North America, made a big push last year to lift price points of bikes sold in its stores, including those sold in its bicycle boutique departments.

Last year the retailer sold its first road bikes with carbon components. Kent's $580 GMC Denali Limited, with carbon fiber fork and seatstays and Shimano STI levers hit, the floors early in the year. An Italian-sourced Corsa FC all-carbon road bike selling for $1,898 showed up at the retailer in the fall. The Corsa FC packed a lot of high-end spec including Shimano, Ritchey, ITM and Selle Italia.

However, mass suppliers report that the bicycle boutique concept is not working as well as the retailer hoped. That comes as no surprise as few industry insiders thought Wal-Mart could find much success selling $500 to $1,900 carbon road bikes.

Specialty Remains Stable. Specialty bike sales were up 3.5 percent in 2007, but units shipped were flat, according to the BPSA year-end report.

While the number of bikes sold stayed the same, the U.S. population hit a record last year, increasing by 2.9 million people over 2006. Taking population growth into account, the bike market actually lost consumer interest even while the cost of topping off a tank of gas reached record highs.

The average selling price of bikes BPSA members shipped to specialty retailers increased modestly from an average of $285 in 2006 to $294 last year. The average selling price of road bikes destined for dealers was up only $3 to $797, a half a percent increase.

Three categories reporting stronger than expected sales gains were hybrids, full-suspension mountain bikes and cruisers.

While high fuel prices lured fewer new consumers into bike shops than retailers hoped, hybrid sales nonetheless increased 12 percent.

High-End on Sales High. High-end suppliers, most of whom do not provide sales numbers to the BPSA, say its relatively flat numbers do not reflect their business last year, which was up an estimated 10 to 20 percent overall. Retailers selling these high-end products also report robust business.

"We were up significantly last year because the high-end market is so healthy, but you don't see that in the numbers," said Dave Powers, Serotta's national sales manager.

"The triathlon market was also very strong last year. People have money and a passion for cycling and are buying high-end bikes," he added.

Some attribute the robust high-end sales of smaller brands to the growing price parity between the $8,500 road bikes from major suppliers and their custom bikes, which makes it easier to up-sell to a small brand.

Yeti's Chris Conroy said last year was the company's best since 9/11. Conroy thinks the growing race scene is partly responsible for these sales, and Yeti saw impressive growth in Southern California.

"Even with falling house prices and their economy, our sales took off there last year," he said.

Boosted by the success of the North American Handmade Bicycle Show, many small custom builders report their waiting lists grew from months to years last year.

These sales are not included in BPSA's reporting.

According to some estimates, the hundreds of smaller builders producing road, 29er, fixed, urban transportation and mountain bikes built more than 15,000 units last year.

Future Sales Could Slow. The uncertainty for suppliers now is whether higher costs will impact the market this year. Steel price hikes accelerated last year, which increased pricing on entry-level bikes. For example, sidewalk bike unit value climbed 6.7 percent last year while unit sales dropped 2 percent.

Suppliers expect manufacturing costs to increase further this year, with the biggest impact on entry-level steel bikes sold in the mass market. Steel now costs more than alloy.

Kent's Kamler guessed that the higher price hikes predicted for this year, coupled with the economic slowdown, could cut entry-level sales up to 10 percent. "People will postpone bicycle purchases in order to buy groceries," Kamler said.

The high-end is not immune to price pressures from sourcing, manufacturing and monetary exchanges, either. The falling dollar against the Japanese yen is driving Shimano Dura-Ace, Ultegra, XTR and XT pricing up. That will impact all high-end sales, forcing many suppliers to revise pricing announced at Interbike.

As high-end bike customers impacted by the slumping housing market become more price sensitive, they could be looking for better deals on new bike purchases. BRAIN

U.S. Bicycle Import Landed Average Unit Value

Categories	2007	2006	2005	2004	2003	Trend*
Kid's sub-20-inch	$26.07	$24.43	$25.30	$25.44	$24.09	8.2%
20-inch	$35.98	$38.86	$37.31	$38.04	$40.20	-10.5%
24-inch	$60.06	$54.41	$48.88	$45.97	$47.75	25.8%
26-inch	$93.39	$83.99	$86.91	$78.31	$76.01	22.9%
700c, Other	$232.90	$251.99	$240.13	$114.21	$181.42	28.4%

* Five-year trend Source: U.S. Department of Commerce

Dollar Market Share by Category

Categories	2007	2006	2005	2004	2003
Kid's sub-20-inch	12.6%	12.7%	13.5%	11.1%	14.0%
20-inch	17.3%	17.9%	18.5%	18.7%	24.4%
24-inch	6.7%	8.8%	7.9%	8.0%	10.0%
26-inch	40.8%	40.2%	39.4%	38.4%	41.7%
700c, Other	22.7%	20.4%	20.8%	23.9%	9.9%

Source: BPSA

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

Categories	2007	2006	2005	2004	2003	5-year trend
Kid's sub-20-inch	$141.49	$134.67	$152.75	$116.53	$127.64	10.8%
20-inch	$194.46	$190.24	$210.03	$196.64	$222.19	-12.5%
24-inch	$75.63	$93.26	$89.10	$84.02	$90.80	-16.7%
26-inch	$459.34	$426.69	$447.18	$404.13	$380.37	20.8%
700c, Other	$256.06	$212.08	$235.72	$181.25	$90.71	182.3%
Totals	$1,126.99	$1,061.27	$1,134.77	$982.57	$911.72	23.6%

Source: U.S. Department of Commerce

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* Five-year trend Source: U.S. Department of Commerce

U.S Bicycle Import Units by Category

Categories	2007	2006	2005	2004	2003	Trend*
Kid's sub-20-inch	5,426,613	5,513,676	6,036,936	4,579,920	5,297,492	2.4%
20-inch	5,404,990	4,895,612	5,629,122	5,169,265	5,526,946	-2.2%
24-inch	1,259,439	1,714,106	1,822,620	1,827,780	1,901,702	-33.8%
26-inch	4,918,550	5,080,160	5,145,094	5,160,948	5,004,133	-1.7%
700c, Other	1,099,461	858,767	981,636	1,587,014	499,999	119.9%
Totals	18,109,053	18,062,321	19,615,408	18,324,927	18,230,272	-0.6%

* Five-year trend Source: U.S. Department of Commerce

Unit Market Share by Category

Categories	2007	2006	2005	2004	2003
Kid's sub-20-inch	30.0%	30.5%	30.8%	25.0%	29.1%
20-inch	29.8%	27.1%	28.7%	28.2%	30.3%
24-inch	7.0%	9.5%	9.3%	10.0%	10.4%
26-inch	27.2%	28.1%	26.2%	28.2%	27.4%
700c, Other	6.1%	4.8%	5.0%	8.7%	2.7%

Source: BPSA

Top Five Parts and Accessories Categories

2007	2006	2005	2004	2003
Tires	Tires	Helmets	Helmets	Helmets
Apparel	Helmets	Tires	Tires	Tires
Wheels	Apparel	Apparel	Apparel	Apparel
Pedals	Pedals	Wheels	Car Carriers	Saddles
Car Carriers	Footwear	Saddles	Saddles	Wheels

Source: BPSA

U.S. Bicycle Imports by Origin

	2007	2006	2005	2004	2003
Trend*					
China	17,350,509	17,217,297	18,433,413	17,168,679	17,092,520
Taiwan	701,938	774,555	1,117,851	1,027,145	951,444
Canada	7,849	8,200	10,687	14,351	10,064
Italy	3,731	5,366	4,092	24,065	4,822

* Four-year trend Source: U.S. Department of Commerce

U.S. Bike Exports by Category

	2007	2006	2005	2004	2003
Tire Size <25"	41,200	35,396	54,121	68,850	40,631
Tire Size >25"	107,388	61,784	137,704	92,859	94,305

STATS

Specialty Gets Bigger Piece of the Pie

Full-Suspension Mountain Bikes, Hybrids Take Flight at IBDs

BY JASON NORMAN

Last year total retail sales crept back up over the $6 billion mark, which was a good sign. In 2006, total retail sales were barely over $5.8 billion.

Another positive is the growth of full-suspension mountain bikes. Consumers seem to be upgrading their front-suspension and rigid mountain bikes as these two categories lost ground.

"Front suspension has hit its peak," said Fred Clements, executive director of the National Bicycle Dealers Association. "No suspension has dropped off the face of the earth. Full suspension is definitely growing—it's a nice thing to see."

While total unit sales of mountain bikes are up by almost 100,000, Jay Townley of the Gluskin Townley Group feels it's due in large part to the rapid growth of full-suspension sales.

"The growth in mountain bikes is primarily in high-end full suspension. This appears to be in line with The Economics and Benefits of Mountain Biking study recently published by Shimano and IMBA, which says that more than one in five Americans age 16 and over ride a mountain bike," Townley said.

The mountain bike "niche" factor could also be playing into this growth as serious mountain bikers are buying different bikes for different types of terrain, or to offer a different feel and experience, such as the 29er and the newer 650B wheel size.

"The niches are key," Townley said. "A mountain biker in Wisconsin is looking for something totally different than what you're riding in California."

Two categories also showing strong growth at retail are comfort and hybrid/cross. Both were up nearly 100,000 respectively in total unit sales in 2007.

Consumers paying attention at the pump and becoming more environmentally aware most likely fueled this rise. Manufacturers seem to be getting the hint, too, as many showed top-notch product in these two categories at last year's Interbike.

"The increases in bike shop sales of comfort and hybrid bicycles are being driven by the movement toward using bicycles for mobility and short-distance transportation," Townley said. "Look for this trend to continue."

Not every category is gaining steam, however. Road/700c continues to flatten, as it has the past couple of years.

According to Townley, enthusiasts—defined by the National Sporting Goods Association as those riding 110 or more days per year—purchased relatively large quantities of 700c road bikes from IBDs and custom builders from 2001 through 2005. The majority had acquired what their lifestyle wants and needs required.

"The good news is that this segment flattened out at a much higher level of sustained volume than at any other time in the history of the bike shop channel of trade," Townley said.

A possible silver lining, however, is that the average selling price on a 700c road bike was $1,100, Clements said.

Economy Stunting Mass Channel. Mass merchants such as Wal-Mart and Target took a big hit last year. They sold 13.3 million units, down from 13.9 in 2006.

Are consumers starting to see beyond the price tag and paying a little extra for quality? This would explain why sporting goods stores are slightly up for 2007, and why specialty retailers have a larger percentage of the overall pie at 16 percent of total units sold in 2007 compared to 14 percent in 2006.

Townley's explanation is that the mass-merchant consumer—especially the Wal-Mart customer—has been hard hit by rising gas and food prices and high unemployment, not to mention overall inflation and flat wages.

"The bottom line is that today a third of the U.S. population fall into the poor or near poor category, and they have to decide between a tank of gas, monthly rent or a prescription for medication or a new bicycle," Townley said. "Given the choices, we are not to come in on top very often, if at all."

While Wal-Mart and other mass merchants are experiencing a slow decline in bicycle sales, they are opening new stores every year that stock bicycles, so the overall decline is barely perceptible, Townley said.

"The 2008 bicycle selling season is going to be shaped by the economy, and could see the mass-merchant channel experiencing a more pronounced decline in bicycle sales," Townley said. "However, the economy is a danger to all channels and may have a negative impact on all channels, including the specialty bicycle retailer." BRAIN

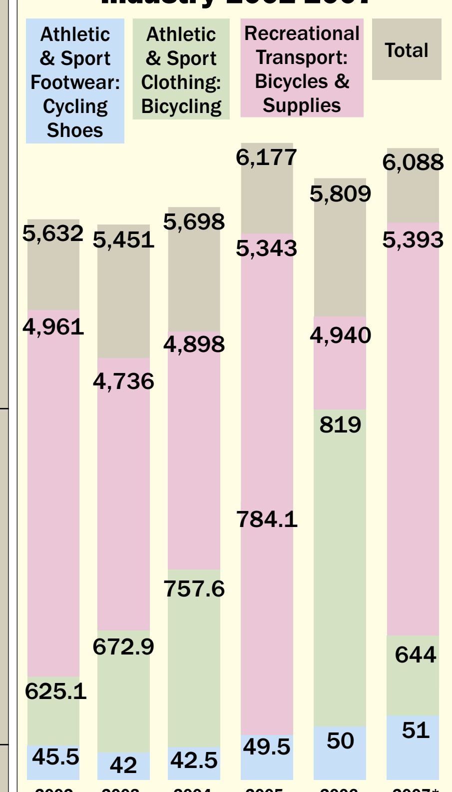
Preliminary Estimates 2007 U.S. Bicycle Market Features of Channels of Distribution

Mass Merchant	Specialty Bicycle Retail[1]	Chain Sporting Goods	Other
13.3 million units, 73% of the total units.	2.9 million units, 16% of the total units.	1.3 million units, 7% of the total units.	547 thousand units, 3% of the total units.
4 large retailers that do 60% of MM channel total, or over 40% of all retail sales: • Wal-Mart • Kmart • Target • Toys-R-Us	4,350 independent, Specialty Bicycle Retailers. (Note: Performance retail stores are included.)	30 sporting goods retailers: • Dicks Sporting • Sports Authority/Gart • Champs Sports • Goods/Gallions • JumboSports • Sportmart	A variety of outdoor / outside retailers, mail order and internet retailers and all other local and regional retailers of bicycles. • Mail Order • Internet • Hardware Stores
$1 billion in annual bicycle retail dollars, 36% of total annual bicycle retail dollars.	$1.4 billion in annual bicycle retail dollars, 46% of total annual bicycle retail dollars.	$258 million in annual bicycle retail dollars, 9% of total annual bicycle retail dollars.	$172 million in annual bicycle retail dollars, 6% of total annual bicycle retail dollars
$77 average unit retail price	$451 average unit retail price	$202 average unit retail price	$314 average unit retail price
Major Bike Suppliers • Pacific Cycle Schwinn Mongoose Roadmaster • Dynacraft Bicycles Magna • Huffy Bicycles Royce Union • Rand International • Kent International	Major Bike Suppliers • Trek Bicycle Corp. • Giant Bicycle Inc. • Specialized • Raleigh America • Pacific Cycle Schwinn GT • Cannondale • Haro • Redline Plus over 260 additional brands and suppliers.	Major Bike Suppliers • Huffy Bicycles Royce Union • Raleigh America Diamondback • Pacific Cycle Mongoose Schwinn GT • Iron Horse / K2 • Haro	Major Bike Suppliers • Pacific Cycle • Dynacraft Bicycles • Huffy Bicycles • Rand International • Kent 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. $710 to $774 million estimated aftermarket retail dollars.	SBR channel stocks and sells the widest selection of bicycle parts and accessories and 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. $774 to $839 million estimated aftermarket retail dollars.	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. $612 to $774 million estimated aftermarket retail dollars.

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

[1]OSR, or Outdoor Specialty Retailers has been added as a separate Channel of Trade for the 2007 Report. Estimated retail sales are 182 thousand units, for 1% of the total, and $85 million or 3% of the total retail dollars. In past years OSR was included in the Specialty Bicycle Retail, or Bike Shop estimates. OSR has been taken out of the Specialty Bicycle Retail estimates for 2007.

Projected Retail Sales (in Millions) of U.S. Bicycle Industry 2002-2007



Source: The National Sporting Goods Association (NSGA): The Sporting Goods Market in 2007.

Specialty Bicycle Retail Channel 2005, 2006 & 2007 Estimated Unit Sales by Product Category

Product Category	2005 Unit Percent	2005 Est. Units[1]	2006 Est. Unit Percent	2006 Est. Units	2007 Est. Unit Percent	2007 Est. Units
Mtn Front Susp	16.60	456,314	16.50	421,788	15.50	451,991
Mtn Full Susp	6.60	181,426	7.00	178,940	8.00	233,285
Mtn No Susp	5.60	153,937	5.00	127,814	4.50	131,223
All Mtn Sub Total:	28.80	791,677	28.50	728,542	28.0	816,499
Comfort	14.20	390,341	14.00	357,880	15.00	437,410
Hybrid/Cross	13.90	382,094	15.00	383,443	16.50	481,151
Cruiser	5.50	151,188	6.00	153,377	6.50	189,544
Road/700c	16.40	450,816	17.00	434,569	15.00	437,410
Freestyle	3.70	101,708	3.00	76,689	3.00	87,482
BMX	5.10	140,193	4.50	102,252	5.00	145,803
Youth 19"	3.00	82,466	3.00	76,689	2.50	72,902
Youth 20"	4.20	115,453	4.00	102,252	4.00	116,643
Youth 24"	2.80	76,969	2.50	63,907	2.00	58,321
All Youth Sub Total:	18.80	516,789	16.50	421,788	16.50	481,151
Other	2.4	65,973	3.00	76,689	2.5	72,902
Totals:	100.0	2,748,877	100.0	2,556,288	100.0	2,916,068

Sources: U.S. Department of Commerce Import Statistics for 2005, 2006 & 2007; Gluskin Townley Group estimates for 2005, 2006 & 2007 excluding exports. [1]Total adjusted by subtracting 7% for Outdoor Specialty Retailers, and category estimates reduced accordingly for 2005 to correspond to 2006 estimates.

Cycling Participation Plunges 13 Percent

Industry Must Reach Broad Audience to Grow Number of Riders

BY NICOLE FORMOSA

After two years of steady growth, cycling participation plummeted 13.4 percent in 2006 hitting its lowest point in a decade, according to research by the National Sporting Goods Association—the most recent consumer study available.

NSGA statistics show 35.6 million people age 7 and older rode a bike at least six times in 2006, down from 41.1 million people in 2005. In 1995, a record 56.3 million people pedaled more than a half-dozen times. The previous low for the past decade was in 2003 with 36.3 million participants.

Biking also slipped from sixth to eighth in NSGA's ranking of participation in all sports activities, behind exercise walking, swimming, exercising with equipment, camping, bowling, fishing and working out at a gym.

Tom Doyle, vice president of information and research for the NSGA, said the decline could be linked to a number of hypotheses, but offered no ready answers.

"2006 could have been a statistical aberration; these do happen. Weather, safety concerns, competition from other wheeled sports, more participants slipping into the infrequent category over the past five years. Infrequents are more likely to drop out," Doyle said.

The number of infrequents—people riding between six and 24 days a year—has risen from 9.5 million in 2001 to 12 million in 2006, Doyle said.

The growing infrequent segment can have a mixed effect on the industry, said Fred Clements, executive director of the National Bicycle Dealers Association.

"Certainly infrequents going up is a good thing, but the other side of that is how many of those infrequents are bike shop customers and how many bought from the mass market?" Clements said.

The difference is when people buy from large merchants they typically don't get the same advice on the equipment needed to make riding comfortable and therefore aren't as happy on the bike.

"It doesn't take a lot of pain for most people to decide this isn't for them," Clements said.

While numbers from the NSGA seem to point to a downturn in the numbers of U.S. riders, data from the Outdoor Industry Association paints a more positive picture.

A study last year by the Outdoor Industry Foundation, the OIA's research arm, shows 42.5 million people ages six and older tried bicycling at least once in 2006, up from 39.4 million people in 2005.

Initial numbers for 2007 indicate that participation is holding strong and did not decline last year, said Clint Wall, OIA research manager.

The difference in the two studies could stem from varying criteria used by each organization, Wall said. NSGA polled people 7 and older who reported riding a bike more than six times in a year, while people ages 6 and older who rode once qualified for the OIA survey.

The NSGA mailed questionnaires to 10,000 households from a pool of 300,000 pre-recruited households for their sample. OIA sent online surveys to 60,169 people from a total panel of one million households representing 2.6 million Americans.

One fact none of the research disputes is that bike riders are largely affluent, white, baby boomer males. As that generation ages and becomes less active, the industry will need to tap into a new consumer base, Clements said.

That means pushing for new infrastructure so people feel like they have safe places to ride, promoting the sport for its health benefits and as a transportation option and making shops more welcoming to women and minorities.

The NSGA numbers show 16.1 million women rode in 2006, compared with 18.9 million in 2005 and 17.2 million in 2001. According to OIA, 40 percent of road riders in 2006 were women, and 30.6 percent of mountain bikers were female.

There are no recent studies on ethnicity, but a 2000 report called "The Cycling Consumer of the New Millenium" found that 90 percent of adult cycling enthusiasts are white.

"I don't think we're reaching out to the broader audience we'll need for the future," Clements said.

Industry analyst Jay Townley agrees.

"We have done a great job with advocacy, but in the process have totally ignored making consumers aware of the benefits our products provide," Townley said. "We are told that obesity and diabetes will help sell bicycles, but the research shows we have not reached out and educated them, and invited them in to try our products."

If the bike market is going to grow, dealers need to become less product-centric, Townley said.

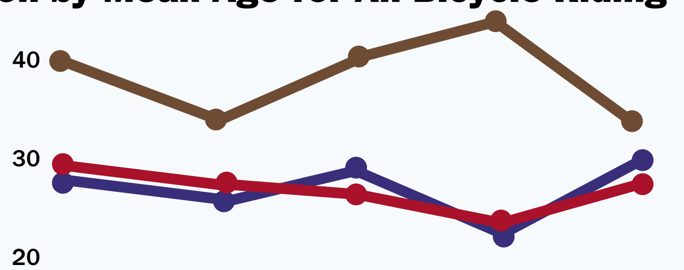
"We need to become consumer focused. Being product focused has created an endemic prejudice in our retail stores that ignores women, senior and non-cyclists," Townley said. **BRAIN**

Bicycling Riding Participation By Household Income in 2006

Under $15,000:	7.6%
$15,000-$24,999:	5.2%
$25,000-$34,999:	9.3%
$35,000-$49,999:	15.7%
$50,000-$74,999:	20.3%
$75,000-$99,999:	18.4%
$100,000 plus:	23.5%

Source: National Sporting Goods Association

Participation by Mean Age for All Bicycle Riding



Source: National Sporting Goods Association

	2002	2003	2004	2005	2006
Total Participation	41.3	36.2	40.3	43.1	35.6
Mean Age-Male	28.9	28.7	29.5	26.9	31.1
Mean Age-Female	29.6	28.6	28.1	27.2	29.4

Total U.S. Bicycle Riding Participation Males vs. Females (in millions)

2003	
All participants:	36.6
Male Participants:	20.4
Female Participants:	15.9
Male by percentage:	56.1%
Female by percentage:	43.9%

2004	
All participants:	40.3
Male Participants:	21.6
Female Participants:	18.7
Male by percentage:	53.5%
Female by percentage:	46.5%

2005	
All participants:	41.1
Male Participants:	24.2
Female Participants:	18.9
Male by percentage:	56.1%
Female by percentage:	43.9%

2006	
All participants:	35.6
Male Participants:	19.5
Female Participants:	16.1
Male by percentage:	54.7%
Female by percentage:	45.3%

Total U.S. Bicycle Riding Participation By Age Group (in millions)

2003:	
All Bicycling Participants:	36.3
7-17 years of age:	41.7%
18-75+:	58.3%

2004:	
All Bicycling Participants:	40.3
7-17 years of age:	43.2%
18-75+:	57.8%

2005:	
All Bicycling Participants:	41.1
7-17 years of age:	39.9%
18-75+:	60.1%

2006:	
All Bicycling Participants:	35.6
7-17 years of age:	39.9%
18-75+:	60.1%

Source for both left and right charts: National Sporting Goods Association