

SCHWINN BICYCLES Pricing Strategy

In Boulder, Colorado Schwinn is determined to resurrect the best-known brand on two wheels. But, as Schwinn celebrates its 100th anniversary, its management team faces a long uphill climb. Now it's trying to rise to the top of the crowded mountain bike market.

For years, Schwinn was the top US brand with as much as 25% of the market. Now, it has less than 5% of the \$2.5 billion annual retail bike market. The new Schwinn will sell about 400,000 redesigned bikes – many of them Asian-made models – that sell for \$200-\$400 retail, the lower end of the adult bike market. Those models are catching on. But the turnaround won't be a success unless Schwinn persuades cyclists to fork over \$700 or more for its newer bikes.

Market share for manufacturers priced at \$400 and up:

Trek	24%
Cannondale	12%
Specialized	12%
Schwinn	7%
Giant	6%
Diamondback	6%
GT	6%
Scott	4%
Mongoose	3%
ProFlex	3%

Three US manufacturers dominate the mass market for low-priced bikes and those made for children: Huffy, Murray and Roadmaster. The mass-market accounts for about 8.5 million of the 12 million bikes sold in the nation annually.

Schwinn's history as a maker of sturdy, low-cost bikes is no longer the asset it once was. Many under-30 cyclists see Schwinn as the bikes their parents rode. They prefer trendier mountain bikes, with their padded seats, upright handlebars, fat tires and additional gears for climbing.

"We have an image challenge," admits Schwinn Marketing Director Gregg Bangni. That's clear from a walk around the University of Colorado campus a half-mile away. Outside dorms and classrooms, racks are filled with bikes made by Trek, Specialised, Cannondale and Giant. Waterloo, Wisconsin-based Trek is the leader. This year it expects about \$300 million in revenue on sales of more than 900,000 bikes.

When I was a kid, if you had a Schwinn, you were the luckiest kid in the world, says Scott Montgomery, a Cannondale marketing chief. Ask a kid now and they'll say, "Oh Schwinn? They're toast."

For decades, the Schwinn brand, synonymous with durability, ruled the road. Generations of kids clamored for those bikes. “Schwinn used to be number one and you could hardly find number two. But in the late 70s and 80s, cyclists veered off the road and into the woods and mountains. Schwinn ignored the mountain bike craze for most of the 80s. By 1992, 2/3 of all bikes sold were mountain bikes and Schwinn was in bankruptcy court. Unable to pay lenders or suppliers, they sold to the Zell/Chilmark Investment fund for \$43 million. Zell/Chilmark appointed new management and funded the company, Scott Sports Group, with an additional \$7 million.

So far the Schwinn turnaround is being attempted on a shoestring. Schwinn’s workforce shrank from 300 to 180 employees when the company was reorganized and moved from Chicago to Boulder. The move west was calculated to attract young workers plugged into the mountain-biking community. Once assembled, the managers focused on product design. They had inherited a Schwinn line whose only mountain bikes were priced at the low end of the bike shop range, between \$200 and \$400.

“Previous management wouldn’t believe anybody would buy a \$1,500 mountain bike with the Schwinn name on it,” one Schwinn executive stated. Now, Schwinn is emblazoned on everything from \$100 kids bikes to \$2,500 mountain bikes. Its top-of-the-line, American-made Homegrown model starts at \$1,750. One of its hottest products is a decidedly tow-tech, retro-style, one-speed Cruiser with a wide seat and balloon tires. It’s selling fast in Sunbelt states for up to \$250. The Cruiser appeals to retirees and snowbirds in beach communities and to college students who call them “bar bikes” because they are ridden to bars and back.

“They want to position this company as high-end, high-tech,” says Cannondale’s Montgomery. “And what they’ve got is the traditional, old-fashioned Harley-Davidson type of product. That’s their greatest marketing challenge.”

Today’s bike business is quite different from the one Schwinn dominated so long ago. Exclusive dealerships like Schwinn uses are disappearing, being replaced by independent bike shops. The typical bike shop carries four brands, so Schwinn bikes are subjected to side-by-side comparisons with competing products. Some of the other brands (Trek/Cannondale) have built reputations for cutting-edge technology. Cannondale makes aluminum-frame bikes in the US and Trek, a pioneer in carbon fiber frames, is moving production back from Taiwan. All but a few thousand Schwinn’s are made in Asia.

“Handmade in the USA is a tremendous marketing feature. Bottom line: mountain biking is a US sport. Yeti (Boulder, CO) makes hundreds of frames for Schwinn’s top-of-the-line homegrown models. Schwinn is considering buying Yeti or another US manufacturer.

Schwinn SWOT

Strengths

Longevity (100 years), Brand, Experience, New management

Weaknesses

Image and Reputation (They're toast.); Brand; Mostly Asian manufacturing;

Opportunities

Rebuild the brand back to being synonymous with durability -rule the road; Acquisitions of Yeti and like companies to regain "Made in America" status; Reinvent and innovate (retro-style, bar bikes); Product Development (new kinds in existing market); Penetration (more of the same in the same markets); Sponsor extreme sports functions (like Red Bull) and create association between product and market

Threats

Made in America clause, Competition, Loss of innovation, Schwinn image doesn't turn around; Schwinn production

2. How important is it for mountain bikes to be made in America?

The sport is a US sport so it makes sense and is good marketing to manufacture there. However, with engineering, technology and competitive production costing, Schwinn could still produce a premium product with America in mind. Then it's up to Marketing and PR to sell it.

3. Evaluate Schwinn's strategy of selling bikes for prices from \$100 to \$2,500.

In order to grow market share, Schwinn has to appeal to the different segments of the bicycle market: mass market for children, dedicated sports bikes, retro and seasonal markets, and they have to be priced accordingly. The fact that exclusive dealerships are disappearing and bike shops are carrying a variety of brands also puts pressure on Schwinn to be price-competitive because the consumer will be able to do a physical side-by-side comparison.

4. Evaluate Zell/Chilmark's decision to invest \$50 million in Schwinn. What did it get for its money? Calculate the breakeven point and the payback period for this investment given the following assumptions: Schwinn has 4% of the retail bike market; Schwinn bikes are marked up an average of 20% at retail; Schwinn has a 25% profit margin on its bikes.

Retail Bike Market

- 12 million bikes sold annually
- 8.5 mill = mass market for low-priced bikes
- 3.5 mill = other

For \$50 million, Zell/Chillmark got the Schwinn brand and the opportunity to resurrect it.

Breakeven point and payback period = 7.5 months @ \$6.63 million/month profit

- Schwinn market: 480,000 (4% of 12 million); 70% = low-end (336,000); 30% = high-end (144,000)
- \$10-\$500 markup at retail on bikes priced from \$100-\$2,500)
- Profit margin: \$22.50 low-end vs. \$500 high-end (\$7,560,000 vs. \$72,000,000 = \$79,560,000 total annual profit - \$6.63 million/month profit)

5. Noting that 80% of Trek's sales are for bikes priced \$400 and over, how many bikes does Schwinn sell in this category?

- TREK market = 24% of 12 million = 2,880,000 bikes
- 80% = Over \$400 = 2,304,000
- Schwinn sells 144,000 in this category.