

Retailers Breathe Sigh of Relief, See Glimmer of Hope on Horizon

The shared sentiment at the fall trade shows was one of pleasant surprise that the industry is in better health than many had feared.

Dealers turned up at Interbike in strong numbers despite doubts they would come. Retailers certainly didn't enjoy banner years, but most hung in there. Many hesitantly reported small,

single-digit declines compared with last year—seemingly positive performance in the face of economic turmoil.

Still, most dealers are heaving a huge sigh of relief as they ready to close the books on the 2009 season and move into a new year. Looking ahead, the macro picture is mixed: while new job reports and housing indexes are still

bleak, the stock market has rallied in the past few weeks.

As retailers survey the industry turf for signs of life, some green shoots are popping up. Niche trends such as fixies and cross racing are creating excitement. And the urban mobility trend continues to hover on the brink of breaking into the mainstream.

Retailers remain bullish on service, repairs and replacement parts. And they note that enthusiasts who held off from purchasing a new bike this year will yearn to satisfy their bike cravings.

As they bring in new models this season, they're counting on the insatiable consumer desire to acquire the latest advancements to push the sales needle.

Guest Editorial

Offer Real Bargains to Consumers But Maintain Profit Margins

BY RAY KEENER AND JAY TOWNLEY

Ray: It's always been a point of pride with IBDs that they don't discount. Even *Consumer Reports* articles say, "Don't ask for a deal, bike dealers don't do that." Talking to dealers this spring and summer, I heard: "My customers want deals." Is it time to give them the deals they want, or should dealers hold the line?

Jay: All retailers are faced with a different American consumer today, and frugality is the new reality that probably won't change much even as the economy recovers. Shoppers want deals, so bike dealers need to change their purchasing and merchandising to offer deals without giving away too much gross margin. Trim and simplify the number of stock-keeping-units in each category, establish good, better, best retail price points, and buy from suppliers that meet your plan

for pricing and margins that include offering bargains and deals up-front.

Ray: I'd sure like to see a partnership between vendors and retailers to represent discounted bikes. When Trek introduced a \$600 road bike for 2010, I thought, "Can't they call it an \$800 MSRP and let the retailer sell it 'on sale' at \$599?" I had a mid-sized bike company president explain to me why that wasn't possible, that whoever tried that would get killed in the marketplace. All the pundits are saying that value-based purchasing is here to stay. As an industry, is there a way for us to address this?

Jay: We first have to make sure anti-trust laws are adhered to. This does not preclude bicycle brands from making promotional models available that don't have an MSRP, leaving the final pricing decision to retailers. The better value proposition may be in how retail-

ers bundle and package product offerings and take trade-ins. Dealers need a simple and straightforward value-based merchandising plan that is supported by a knowledgeable sales staff. On the supply side, brands can make available rebates or coupons.

Ray: What are some specific things retailers can do to respond to the demand for deals? And this really gets back to: "What am I comfortable with?" For example, it seems pretty innocuous to me to make SALE tags for your bikes that have the HIGH MSRP as the "regular" price and then the LOW MSRP as your "SALE" price. Or "EVERYDAY LOW PRICE." However you choose to represent a discount from high MSRP is up to you and your conscience.

Jay: This looks like the easy way out, but it is a very slippery slope to taking deep losses on new bike sales. If you can't

run a profitable business with MSRP, go with brands that allow you to set retail pricing. Bike shops need to start with an honest and simple story about the value and added value they are offering. It takes more work to develop a merchandising plan with margin objectives for every bicycle, but it assures staying in business. Establish retail pricing that is profitable while representing a real value. Purchasing carry-over inventory is one source of opening price-point product, and last year's models are fine, as long as you can meet your gross margin and inventory turnover objectives. The point is: Proactively offer real bargains to customers, but plan purchasing and merchandising to realize a fair profit on every sale.

Ray Keener and Jay Townley have a combined 87 years in the bike business.