REPORT

The European bicycle industry in crisis mode

How bike manufacturers can succeed in a continuing weak market and create a more resilient business

PRESSEDIENST-FAHRRAD

Roland Berger

Management summary

The European bicycle industry is in crisis. After the boom years of 2021 and 2022, bike manufacturers are now battling underutilization of production capacities, rising costs, high inventory levels, and liquidity problems. Notably, demand for bicycles (bikes without an electric motor) has fallen markedly. According to figures from the German industry association ZIV, bike sales declined by as much as 13 % in 2023, with no sign of a recovery in the market. Access to bank financing is also increasingly difficult. Manufacturers are therefore compelled to take short-term measures to secure liquidity. Reducing inventory levels, exercising strict cost discipline, and optimizing working capital are top priority.

Even if the main drivers of demand remain intact, sales will stagnate over a medium-term horizon. Added to that, new competitors from outside the industry, like automotive manufacturers, are muscling in on the market. Thus, it is all the more important for bike manufacturers to quickly and rigorously bring costs down, professionalize their processes, and rethink their strategy. This will be the only way to future-proof their business.

Cover: Sergio Mendoza Hochmann/Getty Images

Contents

Methodology

Roland Berger collaborated with pressedienst-fahrrad as a media partner to interview a total of 34 executives from bike manufacturers in Germany, Austria, and Switzerland from mid-July to mid-August 2024. Six managing directors and industry experts were also interviewed.

1 The bicycle industry in crisis mode

The boom years are over: full warehouses, overcapacity, and heavy discounts are weighing on profits

Overstocked warehouses, rising costs, and consumer sentiment worse than ever: few sectors of the economy have experienced such a massive downturn in recent times as the bicycle industry.

The boom in demand during the pandemic led many bike dealers to place very large orders, leaving them sitting on inventory surpluses today. Added to that, supply chains that were disrupted in 2020/2021 are now fully functional, with the result that many retailers are receiving the goods they ordered from all suppliers at once.

According to figures from the industry association ZIV, sales of bicycles and e-bikes in Germany were already 13 % down year on year in 2023. The decline mainly affects bicycles, by which we mean bikes without an electric motor. Electric bikes (e-bikes), on the other hand, are experiencing fairly stable demand. One reason for this is the existence of leasing models, which are becoming ever more popular with employers, among others.

The high inventory levels and associated decline in orders from retailers have caused sales to fall by more than 30 % for some bike manufacturers, leading to correspondingly large reductions in profit. Giant, one of the world's biggest bike manufacturers, saw profits plummet by as much as 45 % in 2023. Pierer Mobility Group, a major European manufacturer, expects to make a loss of EUR 110 million in its bike business in 2024.

Some companies began to feel the effects of the crisis back in 2023; others such as VanMoof, Cycle Union, and online retailer fahrrad.de filed for insolvency. Industry giant Accell Group, for example, owner of brands such as Haibike, Ghost, and Winora, has not been out of the headlines for months with bad news story after bad news story. Swiss bike manufacturer Scott needed a capital injection of USD 160 million from its Korean parent company to keep the business going.

The situation remains difficult in 2024. In the first four months of the year, German manufacturers saw sales fall by a further 10% year on year. Nor did the Eurobike international trade fair in July bring a turnaround in fortunes: Neither new products nor special offers introduced for the trade fair met with much of a response, and the usual spring surge in demand upon which many had placed their hopes largely failed to materialize. Major market players expect sales and revenues in 2025 to be down year on year once again, and predict that the problems that beset bike and component manufacturers may even become more acute.

The permanently high inventory levels are piling the pressure on prices for manufacturers and retailers alike, and they are discounting heavily in an attempt to win customers. Given the current market, manufacturers will have to continue their discount policy in 2024 and 2025.

Nevertheless, the bicycle industry is optimistic, viewing the current market correction as only temporary. That is because the megatrend of zero-carbon mobility in towns and cities and the desire to realize the green transport revolution will revitalize demand for bikes in the medium term. The main drivers here are e-bikes, which generate higher revenues and margins, and the increase in bike leasing. Discussions with industry executives and relevant associations indicate that the industry expects the market to return to normal in the 2026 season – although at a level well below the boom years of 2021 and 2022.

2

Market recovery is taking longer than expected

Securing liquidity is top priority

Based on feedback from the industry and judgments made in our ongoing projects, we don't expect the market to improve significantly in the short term. Particularly bike and component inventory levels, still very high, will continue to weigh on manufacturers' businesses for longer than anticipated.

1. THE RECOVERY PHASE IS TAKING LONGER THAN EXPECTED

It will not be possible to reduce manufacturers' high inventory surpluses within the next six months. Retailers are going to be very cautious with their orders for the time being, first running down their own stock levels before placing any significant new orders. We don't expect the recovery phase to begin until the 2026 season.

Statistics from the North American industry information service Bicycle Retailer & Industry News suggest that retail inventories are still twice as high as in a normal year, pre-pandemic, and are reducing only gradually. A similar trend can be assumed for the European market.

"With the ongoing discount campaigns, current margins for me as a retailer are so low that it's much riskier to order from my bike brands than to forego the additional revenue."

Managing director of a large bike dealer with several retail stores

More than half of the bike manufacturers we surveyed have over six months' worth of stock in their inventories; more than a quarter of them even have over nine months' worth.

We expect things to remain difficult for bike manufacturers in 2025. Consumer sentiment remains low and consumers are holding back on non-essential spending. As a result, retail inventories will not be reduced as quickly as hoped (see above).

More than 70 % of our survey participants anticipate a further decline in revenues – more than half even expect a decrease of more than 10 %.

"Our business plan for 2025 anticipates another decline in volumes compared to 2024 of around 15 %, and we are adjusting our organization in line with that."

Managing director of an e-bike manufacturer

"Eurobike was a sobering experience for us – despite the strong special offers we had communicated in advance. Our dealers have given clear signals that their pre-orders for 2025 will only be a fraction of the usual order volume."

Managing director of a major e-bike brand

It is already becoming apparent that new order intake, especially for 2025 pre-orders, will remain comparatively low; retailers are cherry picking and only ordering the absolute essentials.

More than two thirds of the market participants we surveyed don't expect normalization to begin until after summer 2025. Interviewees described the volume of orders placed by dealers during Eurobike as very weak overall compared to previous years.

Strict cost discipline, adjusting costs to sales levels, and concentrating on essential expenditure are going to be the order of the day for the next 24 months.

2. CASH IS KING

Bike manufacturers are taking various measures to secure their liquidity. In addition to bringing down their component inventories – still very high – and reducing their material purchasing, they will also need to continue their discount policy for longer than planned.

60% of the market participants we surveyed expect the financing situation to remain difficult or to deteriorate even further, particularly with regard to bank lenders.

Access to liquidity, strict spending discipline, and working capital optimization will remain the focus for the next two years. To enable this, manufacturers will need to adapt their planning systems and make them more flexible.

"We are currently making virtually no material purchases. The sheer exuberance of 2021/22 meant that we ordered far too much – partly due to the long lead times. We do need to purchase minor additions for one or two of the new models, but around 85% of our material requirements for the next 15 months can be covered from our existing stock of components. That's really the only thing keeping us afloat liquidity-wise."

Managing director of a bike manufacturer

> **"The bicycle industry will remain a field of interest for us in the future. However, the downgrading of credit ratings that we've seen in our institute is so great that we are currently not entering into any new commitments, and we need to scale back our existing commitments or would wish to see the companies backed by significantly more equity."**
>
> **Special loan officer of a large German bank**

3. FURTHER RESTRUCTURINGS AND INSOLVENCIES CANNOT BE RULED OUT

The capital position of some manufacturers is very difficult. Existing financing is weighing on balance sheets, and lenders are viewing the industry with much more of a critical eye than they were two years ago. Banks that used to be heavily involved in financing bike manufacturers have been optimizing their loan portfolios and are no longer willing to extend existing lines or provide seasonal financing.

In the bicycle industry, which is primarily characterized by medium-sized companies, not all businesses have or can access the financial resources they need to get through the period until the recovery kicks in.

Essential restructuring measures at operational and balance sheet level must not be put off. Companies must act now!

3 Four short-term measures to safeguard business operations

Besides cost reductions and working capital management, processes also need to be adapted

1. SECURE LIQUIDITY

Liquidity and cash flow will remain the key focus areas over the next two years. Rigorous liquidity management is therefore top priority, and every possible opportunity to generate cash must be taken. Potential financing options must also be considered.

2. REDUCE COSTS RIGOROUSLY AND QUICKLY

It is imperative to rapidly adjust the cost base and capacities to the lower sales volumes: particularly indirect costs and personnel costs. However, owing to manufacturers' high inventory levels, material costs – as the largest cost block alongside personnel – can only be influenced to a limited extent in the short term.

Almost three quarters of the manufacturers we surveyed have already made significant capacity adjustments; more than half have instituted a hiring freeze to keep costs stable, and a third have made major cuts to their marketing spend in particular.

3. OPTIMIZE WORKING CAPITAL

The persistently high manufacturer inventories, up to 18 months' worth in some cases, are tying up a great deal of capital. Added to that, there are also delays in payments from dealers and bad debt losses from trade receivables. All possible measures to reduce inventories (e.g. special models, discounts, component sales, fewer new products) plus precise material requirements planning and avoiding customer defaults are therefore essential.

Almost two thirds of respondents are currently using heavy discounting and a significantly reduced number of new products to improve their inventory position and generate liquidity.

4. IMPROVE PROCESSES

Professionalizing business processes has not been a priority in the bicycle industry to date – partly due to the boom years the sector enjoyed in 2021/22.

Not least because of the high inventory levels, there is a pressing need to improve planning systems. Processes, too, must be well coordinated and flexible enough to react fast to changing conditions.

More than 70 % of the manufacturers we surveyed are working on organizational improvements, including headcount reductions, in response to the current crisis.

4

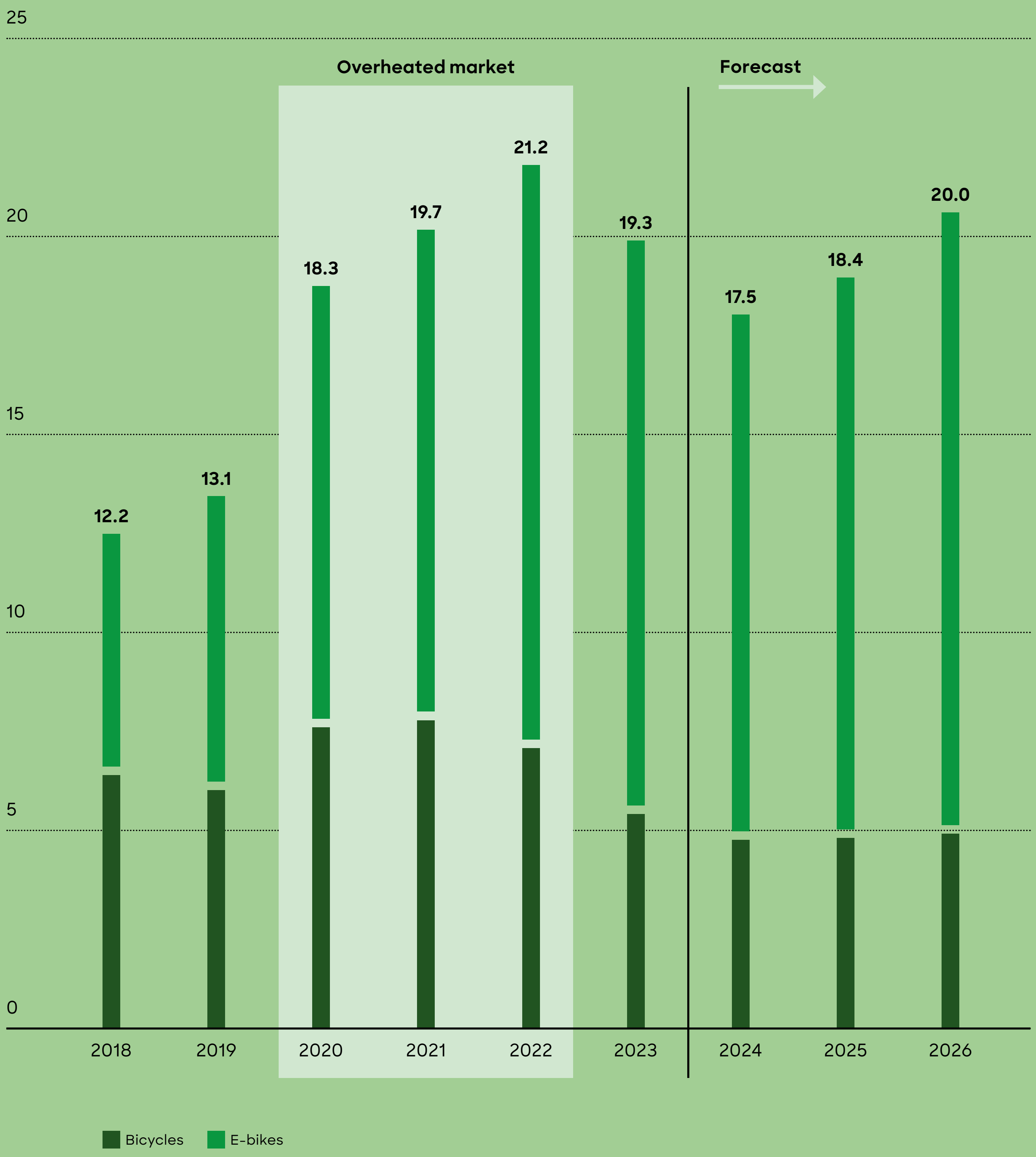
Sales will stagnate medium term, but e-bikes remain on trend

Leasing options and tax breaks drive demand

The industry's future prospects are stable and the overarching megatrend of zero-carbon mobility in towns and cities is intact. Policymakers, too, are recognizing the bike as a key driver of the green transport revolution, especially in urban areas. This is underlined by the European Parliament's resolution to double the number of kilometers cycled in the EU by 2030.

Despite such targets, the market recovery results primarily from rising average prices per bike owing to the growing penetration of e-bikes rather than higher sales figures. We anticipate stagnating sales in Europe over the next few years but expect revenues to increase – as illustrated in the adjacent figure. ▶ A

A Bike revenues in Europe [EUR billion]



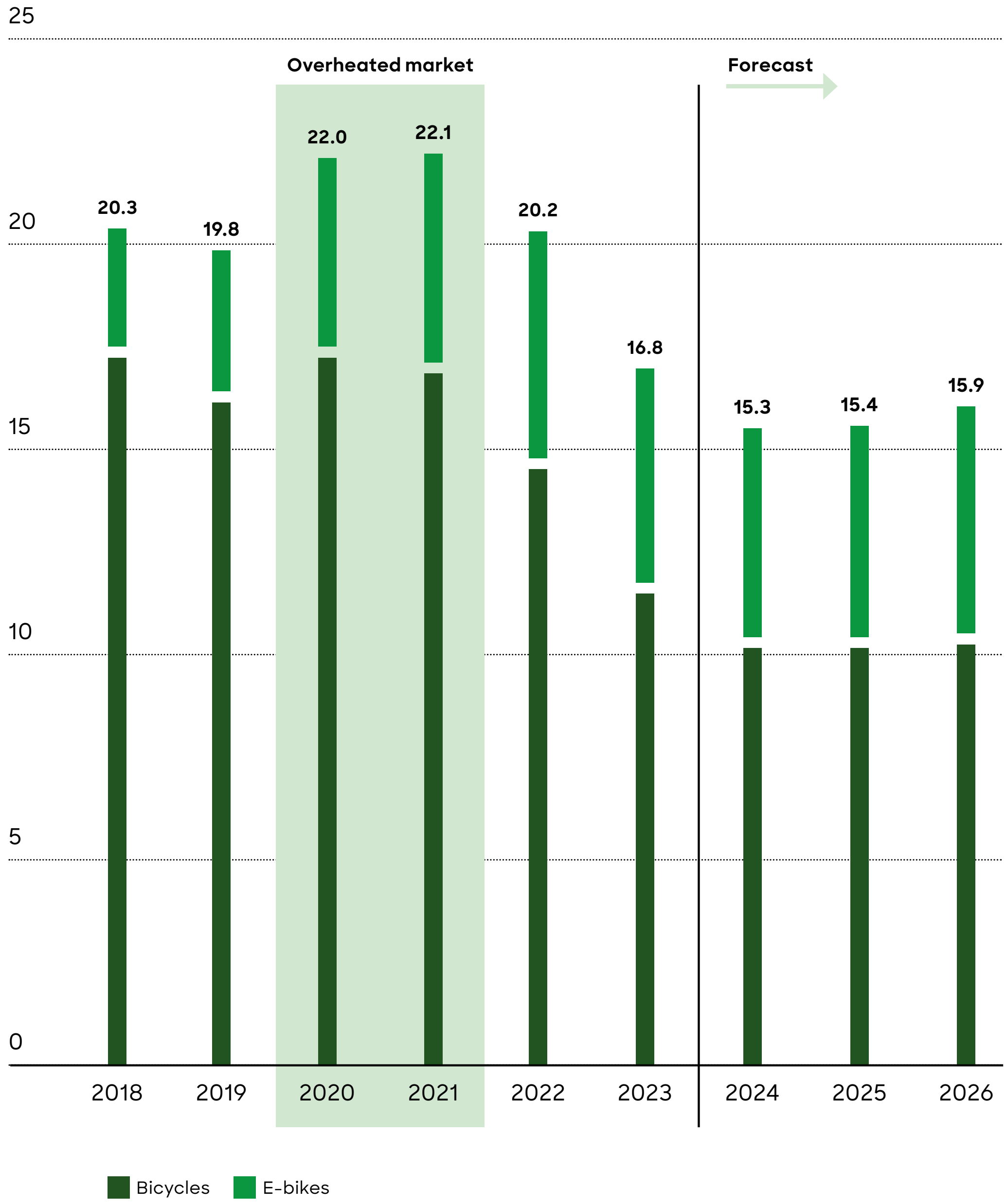
Source: ZIV, Conebi, Roland Berger market model

What factors will shape the industry and determine business success going forward? The surveyed market participants share our view that five topics will be key:

1. E-BIKES WILL SHAPE THE MARKET IN THE COMING YEARS

In Germany, Europe's largest market for e-bikes, a total of 2.1 million e-bikes and 1.9 million bicycles were sold in 2023. Tax breaks, leasing options, and employers providing e-bikes to employees as an incentive will drive sales of e-bikes in the medium term. ▶ B

B Bike sales in Europe [million units]



Source: ZIV, Conebi, Roland Berger market model

"Attractive e-bike products are the key element in our product portfolio. But we expect the price point to have to come down. The prices for a good e-bike are often driven by high prices from component manufacturers. That's why our focus in the future will be on reducing material costs."

Product manager of a major bike brand

While other major bike markets (like the Netherlands, Austria, and Switzerland) already have high e-bike penetration rates, the e-bike share across Europe as a whole is currently only around 30%. The market therefore offers further growth potential for bike manufacturers. Potentially lower entry-level prices will also make e-bikes affordable for a wider range of buyers.

The convenience of e-bikes and the tax-deductible leasing options will continue to make e-bikes attractive going forward. However, we anticipate that average prices will settle at a lower level.

"Bike manufacturers are in a dilemma: On the one hand, they have cost pressure and margin transparency to contend with, but on the other, they need to invest in branding to remain distinctive and be able to enforce their prices. If they don't have an established brand core to fall back on, they will not be able to build it up under their own steam in the current market, which means they will barely be able to maintain their market position, let alone improve it."

Gunnar Fehlau, pressedienst-fahrrad

2. STRONG BRANDS WILL WIN

In the past, e-bikes were often bought based on the salesperson's recommendation and with an eye on strong component brands such as Shimano, Schwalbe, and Bosch. Plus, manufacturers differ only in technical features and frame design. The market entry barriers for new players are thus quite low.

In the future, branding will become increasingly important for bike manufacturers. Manufacturers will need to make themselves stand out better from their peers, and they will need to embrace marketing/ communication as an integral part of their own value chain to give them greater leeway vis-à-vis retailers.

3. BIKE MANUFACTURERS WANT TO CLAIM A GREATER SHARE OF THE VALUE CHAIN DOWNSTREAM AND UPSTREAM

Material costs hold great potential as a way for manufacturers to improve margins. Typically, bike manufacturers develop the frame design (possibly in collaboration with a frame supplier) and then specify most of the components from the respective (brand) suppliers. Bike manufacturers have begun to increase their footprint in the value chain by developing their own components or cooperating with suitable manufacturers in Asia. Trek, for example, has long had its own component and accessory brand, Bontrager, which is precisely tailored to its own range of bikes. We expect bike manufacturers to increasingly invest in in-house development as a way to (i) achieve a bigger share of the margin, (ii) reduce dependencies on key components (see above), and (iii) develop tailor-made components that allow them to differentiate their offering to the consumer.

More than 60 % of our survey participants expect component prices to continue to rise by 5-10 % until the end of 2025.

Bike manufacturers are also seeking more direct access to consumers. Bike retailers often react(ed) with strong disapproval to bike manufacturers also selling their products through their own D2C channel. Major bike retailers and industry associations are investing significant resources in their own brands, putting them in direct competition with traditional bike brands. We expect bike manufacturers to expand their D2C offering more strongly in a bid to (i) improve margins, (ii) generate data for more consumer-focused product development, (iii) achieve more targeted marketing placement, and (iv) be able to sell excess inventories better. High-quality distribution is a key success factor, particularly in the e-bike segment. We expect that bike manufacturers - unless they have a history in the D2C channel - will implement their D2C offerings in cooperation with their established dealers in order to avoid channel conflicts.

Around a quarter of the companies we surveyed are planning to soon have their own D2C channel or - especially given the inventory surplus they currently hold - are already doing an increasing amount of selling through D2C.

4. INDUSTRY PROFESSIONALIZATION AND RESILIENT SUPPLY CHAINS

The bicycle industry is characterized by medium-sized companies that saw strong growth, especially in the boom years of 2021/22, and have now had to switch into "restructuring mode" very suddenly. Besides adapting processes, manufacturers must also ensure that their corporate structures and processes are now professional and flexible if they want to remain successful in business.

One of the most important measures to take is to optimize planning systems in order to minimize the so-called bullwhip effect, or demand variability along the supply chain. The bullwhip effect describes the impact of demand variability across multiple levels of a supply chain, often caused by a lack of information sharing between the levels. The further you get from the end customer towards the manufacturer, the greater the impact. In the end, the quantities ordered exceed the actual demand, resulting in high inventory levels.

Additionally, manufacturers need to make their supply chains more resilient. Some are already taking the first steps in assembly and component production. High-end manufacturers are having assembly done or frames produced in countries like Portugal, Giant has opened a production facility in Hungary, and DT Swiss is reshoring some of its production from Taiwan to its own plant in Poland.

However, with the capacities currently available in Europe, only around 15 % of the bikes sold in the EU can actually be manufactured in Europe. Reshoring is currently more of a risk minimization measure. But we expect the trend to intensify.

5. MARKET CONSOLIDATION AND NEW MARKET ENTRANTS

Not all manufacturers will be able to afford the investments in new products, distribution, and marketing. We therefore expect the market to consolidate, with the less professional manufacturers or smaller brands coming under the umbrella of larger manufacturers. Bike manufacturers that lack a clear profile or have unattractive pricing models will also exit the market in the medium term.

But the success of e-bikes makes the market of interest to other players, such as automotive and motorcycle/scooter manufacturers. Porsche is keen to further its own motor development activities with the acquisition of motor manufacturer Fazua. The Indian motor scooter and light motorcycle manufacturer TVS Motor is making targeted acquisitions of European e-bike brands such as EGO Movement and Swiss E-Mobility Group AG with various brands. These companies often have significantly more financial firepower than existing bike manufacturers and have highly professional processes in place.

5

Five success factors for resilient business models in the bicycle industry

Even strong brands need to get closer to customers and not be afraid to change

1. OPTIMIZE PRODUCT RANGES

In recent years, some manufacturers have over-extended their product range with very large numbers of models and configuration variants. A significantly streamlined product portfolio will lead to lower working capital employed, better resource utilization, and reduced complexity when it comes to demand planning, procurement, and product management. The aim should be to reduce SKUs by a third.

Almost two thirds of our survey respondents consider their own and other bike manufacturers' product ranges to be (much) too extensive.

2. RETHINK THE POLICY ON NEW PRODUCT LAUNCHES AND FOCUS ON CUSTOMERS

Having too many new product launches makes demand planning more difficult, puts a strain on working capital and internal resources, and increases component complexity. Major overhauls of the model range are not necessary for every season. With a limited number of new products, manufacturers can still grab customer attention without putting too much strain on the organization and the company's financial situation.

Bike manufacturers should also be more customer centric in how they work and clearly align product management with customer needs.

More than half of survey participants agree there are deficits around clear consumer focus. All too often, products are developed without taking into account what the consumer really needs.

3. REDUCE DEPENDENCIES

Some component manufacturers have market power for certain components (e.g. Shimano, Bosch). This can lead to restrictions in supply, component selection, and product design. Strengthening a broader supplier base helps to avoid these dependencies.

4. BRAND STRENGTHS

E-bikes are expensive and complex. And that increases the level of consumer involvement around buying and owning a bike. This makes brands more important in providing guidance for consumers.

Almost half of our survey participants intend to invest more in their brand and branding in the future.

5. RETHINK STRATEGY

Despite the volatile developments of recent years, the bicycle industry has shown relatively little willingness to change. Yet the current operational challenges call for fast and rigorous action. The strategy around distribution channels (B2B vs. D2C) as well as brand and market positioning (full-range vs. niche provider, local vs. regional vs. global) needs to be reviewed and adapted as necessary.

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