# Point Asia co. ltd.

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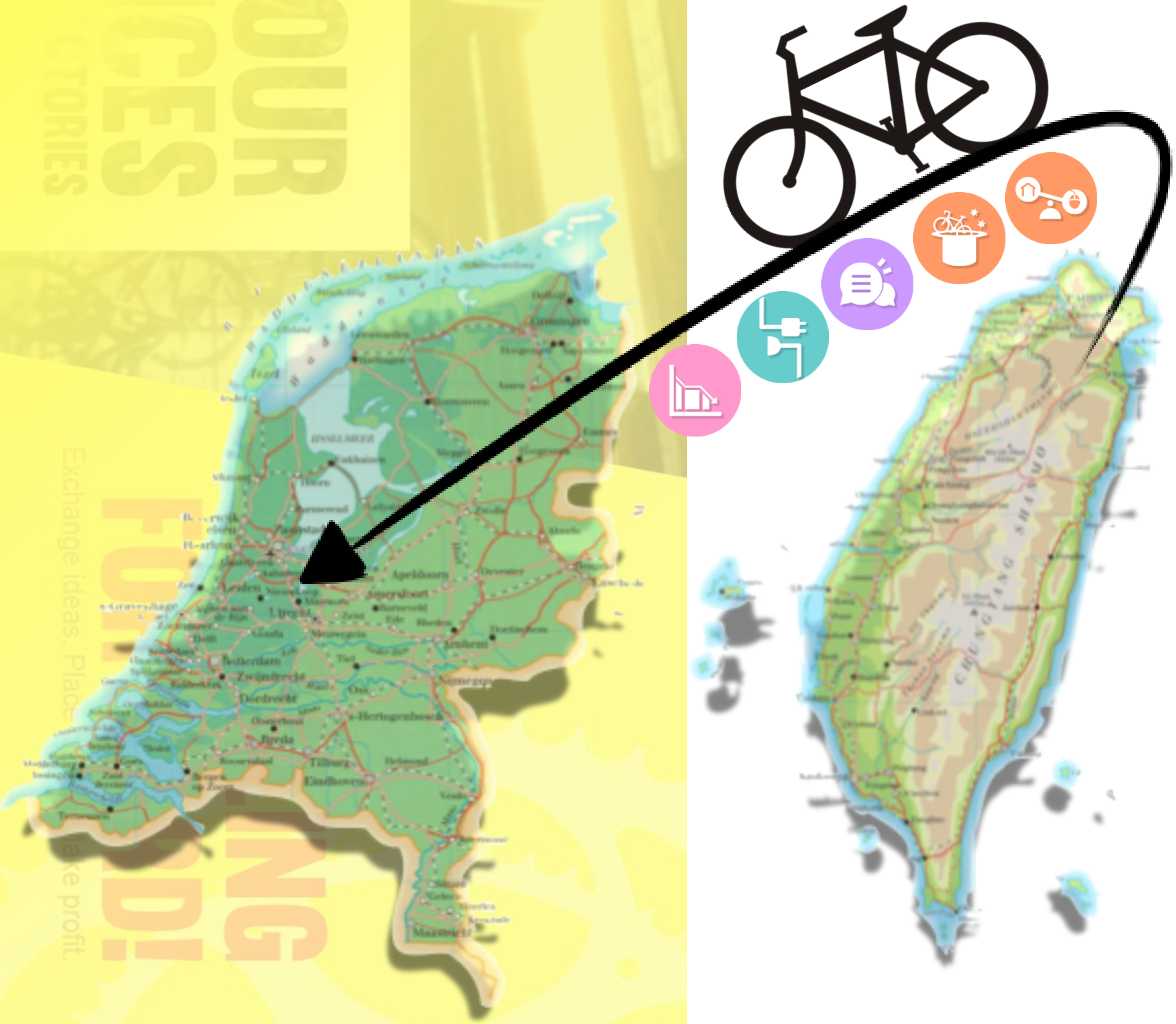

# Entering the Dutch bicycle industry

# How Point Asia and Xinosys should introduce Pedaling Forward in the Dutch bicycle industry

By

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# Executive Summary

Pedaling Forward is a collaborated project created by Point Asia co. ltd and Xinosys co. ltd. Its objective is to connect (Taiwanese) bicycle manufacturers directly to bicycle retailers worldwide through the Patisco.com platform. End of 2012 Pedaling Forward had taken an interest in the Dutch bicycle market, but still had to research its feasibility. Therefore the following question has been formulated: “How is it feasible for Point Asia and Xinosys to introduce Pedaling Forward in the Dutch bicycle market?”. To answer this question data was collected based on triangulation of desk-, qualitative- and quantitative research. This data was used to formulate a business model canvas, porter’s 5 forces analysis, thematic research and quantitative (correlation) research.

The business model canvas revealed that Pedaling Forward has budget constraints and integrity concerns. Furthermore that it is limited to a lead time of 10 days and minimum order price of €500. Porter’s 5 forces analysis showed that the Dutch bicycle industry is not easy for new entrants and has very high rivalry with high buyer- and low supplier bargaining power. Moreover the substitute e-bikes is starting to gain ground in the market. The thematic research with retailers revealed four repeated themes: import from Asia, brand recognition, pricing policies and product offering. There were concerns for importing and lead time, the reliability of Asian suppliers, consumer’s brand focus and the effect of e-commerce on the components segment. The correlation research revealed characteristics of different retailers and strong relations between the themes import from Asia and product offering.

It can be concluded that the barriers for Pedaling Forward to enter the Dutch bicycle market are: high rivalry in the industry, requirement of short lead times, brand orientated consumers and retailer's negative opinion of Asian suppliers. On the other hand the drivers are the e-commerce and market transparency, policies of major brands, oversupply and unreliable connections to Asian suppliers. Pedaling Forward's business model revealed that it lacks follow-up at retailers. This is related to Pedaling Forward’s integrity concerns that restricts traditional methods of market entrance, such as agencies and partnerships in the local market. Furthermore, opportunities for Pedaling Forward were found in the electric bicycle (e-bike) market and retailers with self-developed brand bicycles imported from Asia. The correlations show that high-end retailers are mainly interested in selling Asian branded components and are more acceptant to longer lead times.

Pedaling Forward can only adjust its approach towards the Dutch bicycle industry and cannot rely on traditional methods of market entrance, due to its budget limitations and integrity concerns. Therefore three approaches for Pedaling Forward to enter the Dutch bicycle industry are formulated. First, focus resources on retailers with self-developed brands and offer flexible follow-up orders. Second, include e-bike components from Chinese suppliers in product offering with flexible follow-up orders. Third, reach retailers with self-developed brands through their Asian supplier.

# Glossary of Terms

**OEM**: Original equipment manufacturer; produces products specified for a company, that brands and sells it.

**ODM**: Original design manufacturer; produces and designs products for a company, that brands and sells it.

**BM**: Brand manufacturer; (designs and) brands products for consumer market.

**OBM**: Original brand manufacturer; produces, designs and brands products/components for consumer sale.

**IBD**: Independent bicycle dealer also referred to as bicycle retailer. This is a bicycle retail store that is not part of a buying associate or franchising company.

**B2B**: Business to business; business/trading between companies.

**E-bike**: Electric bicycle; bicycle powered by an electric engine.

**SaaS**: Software as a Service; a company that sells software centrally hosted on a cloud.

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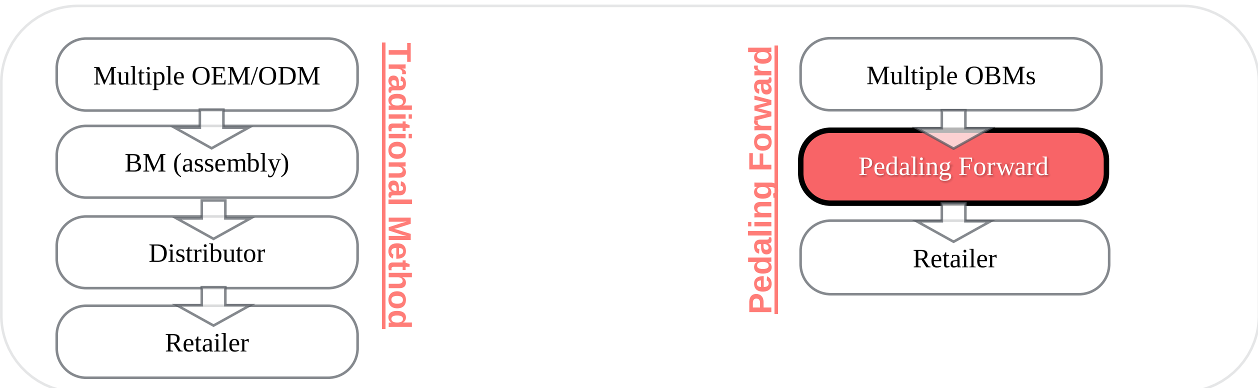
# 1. Introduction

The focus of this report is Pedaling Forward. Pedaling Forward is a collaborated project created by Point Asia co. ltd. and Xinosys co. ltd. Point Asia is a trading company based in Taiwan with close relationships in the Bicycle and components manufacturing business. It is founded and owned by the Chung family for over 25 years. The company is currently run by the youngest son, Yi-Ching Chung. Xinosys is a 5 year old software as a service (SaaS) company founded by the oldest son, Even Chung, of the same family. The most remarkable product of Xinosys is Patisco.com; a cloud platform application that offers business to business (B2B) merchandising and communication solutions for small to medium sized companies. Both companies are very committed to Pedaling Forward and are collaboratively referred by it.

The objective of Pedaling Forward is to connect (Taiwanese) bicycle manufacturers directly to bicycle retailers worldwide through the Patisco.com platform. Making it possible for retailers to directly communicate with and purchase from the original brand manufacturers (OBM) in Taiwan (Figure 1). OBM factories are both the manufacturer and brand manager of a product. In other words OBM includes all other type of manufacturing known in the bicycle industry such as; brand manufacturer (BM), original design manufacturers (ODM) and original equipment manufacturers (OEM).

It is common practice for bicycle brands to outsource their manufacturing to OEM/ODM manufacturers in Asia and assemble the bicycles locally themselves (Randall & Ulrich, 2001). These outsourcing companies are also known as BM companies. OEMs are production based companies and make their machines available to for other companies. ODM companies on the other hand manufacture their own product designs, but without a brand label on it. Commonly if a company offers OEM services it also offers ODM services.

Figure 1: The difference in supply chain.



## 1.1 Problem statement

The original plan was to launch Pedaling Forward in the German market through Point Asia's established business partner, their long time bicycle importer Point Germany. This German import company initially agreed to take responsibility for recruiting of retailers in Germany and to facilitate distribution to them, while Point Asia would recruit more Taiwanese factories and arrange the shipments to Germany. However, when everything was ready to launch mid-2012, Point Germany withdrew from the project, on the grounds that it did not want to risk its current business with distributors (wholesalers) and was not convinced of the potential of the project.

At this time Pedaling Forward was brought into a difficult position where it had to come up with a new strategy plan. This brought the plan to the next level cut out the middle man and deal directly with the bicycle retailer. This plan was developed at the end of 2012 with a focus on the German bicycle market. Concurrently, the Dutch market was taken into consideration, but this still had to be researched. For that the following question needed to be answered: "How is it feasible for Point Asia and Xinosys to introduce Pedaling Forward in the Dutch bicycle market?"

To find the answer to this question the following sub-questions have been formulated:

1. What is Pedaling Forward and its business model?
2. Who are or what is Pedaling Forward's target market?
3. In what conditions are the Dutch bicycle industry and its developments?
4. Who are Pedaling Forward's competitors in The Netherlands?
5. What are the entrance barriers and drivers that Pedaling Forward could encounter in the target market?
6. How can Point Asia implement Pedaling Forward in the Dutch Market?

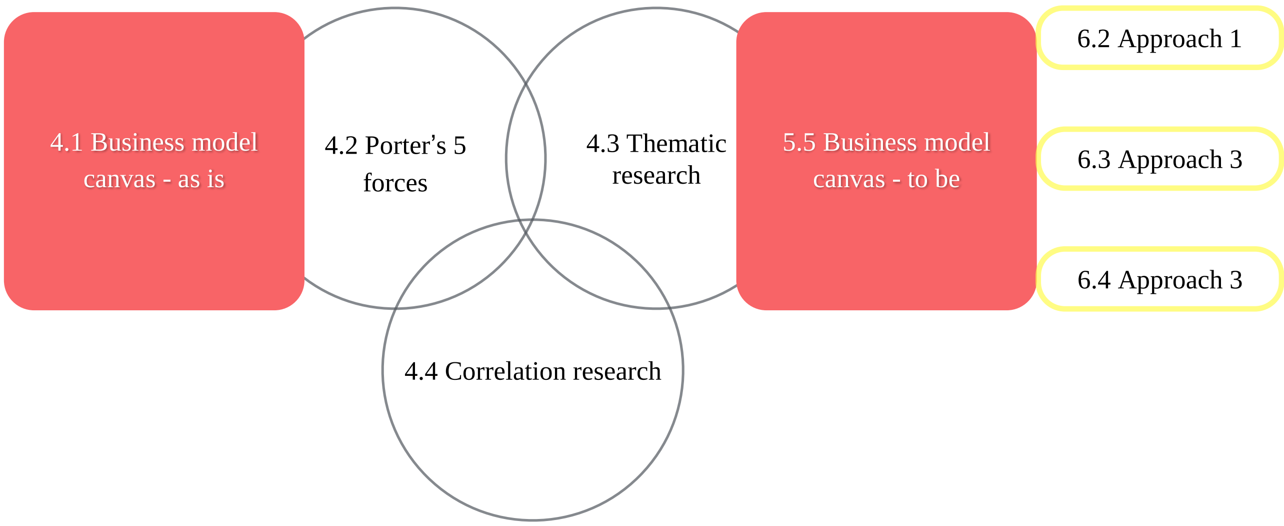
## 1.2 Research Objective

This report is meant for an audience with a business background with a basic knowledge in business administration. By presenting both qualitative and quantitative data it will give more insight into how the Dutch bicycle market functions, explain Pedaling Forward's target market, its barriers, drivers and its feasibility in the Netherlands.

## 1.3 Report Outline

The main outline of the report consists of findings, discussion and recommendation. In chapter 3 the methodology is explained in more detail. In chapter 4 are the findings, where Pedaling Forward's business model canvas is mapped, followed by a porters 5 forces analysis to give a brief overview of the Dutch bicycle industry. After the 5 forces analysis, thematic results of the qualitative research are summarized to give more in-depth information and build a basis for the quantitative (correlation) research. The quantitative research entails correlations of the thematic results. In chapter 5 Discussion the most significant findings are discussed resulting in a new business model. Chapter 6 Recommendation concludes the research and answers the main question by recommending three different approaches to introduce Pedaling Forward in the Dutch bicycle industry.

Figure 2: Report structure



# 2. Literature Review

In the 1920s the bicycle was introduced as an affordable means of transport in the Netherlands (Stoffers, 2012). Now, the cultural inherent vehicle exceeds the Dutch population with an average of 1.11 bicycles per person (Fruianu et al, 2009). Both state and central government continuously build incentives for bicycle use; by providing support for cycling facilities, assist with planning- and research activities and encourage the cycling behavior country-wide. Pucher & Buehler (2008) states that in addition to these incentives, they aim to make driving (a car) expensive as well as inconvenient in central cities. Therefore it is not surprising that, according to van Boggelen (2007), 16% of the total road network in the Netherlands is devoted to bicycle roads.

According to Puncher & Dijkstra (2003) no matter the age or level of income, nearly everybody cycles in the Netherlands. All age groups make between 20 to 25 percent of their trips by bicycle; averaging 6.66 km per day. The bicycle is regularly used for commuter travel, education and shopping (Rietveld & Daniel, 2004). According to van Boggelen (2007) bicycle usage is related to the number of warm days in a year. It is negatively influenced by bad weather, therefore in the (spring/summer) period of March until the end of September bicycle usage peeks in the Netherlands. Also bicycle theft negatively influences bicycle usage. Even though theft is actively being tackled according to the Ministerie van Verkeer en Waterstaat, cyclers might not use a bicycle at all or are unwilling to use a high quality bicycle that otherwise could encourage the cycler to cover longer distances more frequently (Rietveld & Daniel, 2004).

Independent bicycle dealers (IBD) in the Netherlands are struggling with a shrinking market. This is more elaborately explained in a report from Meijer & Van Der Ham (2011) that discusses the development of the bicycle retail industry in the Netherlands, with supporting arguments to help retailers develop a new direction. One of their conclusions is that the bicycle sector has been earning more than other retail sectors in the Netherlands, but are now facing more difficult times with price competitiveness from e-tailors. Only companies that invested properly in their business are still growing and are able to react on the increasing interest for electric bicycles (also known as E-bikes) (Meijer & Van Der Ham, 2011).

According to Meijer & Van Der Ham (2011), E-bikes have saved the bicycle sector from losing profits. The e-bike cost a lot more than a regular bicycle and also consists out of a lot more components including a battery that requires more regular maintenance (Goodman, 2010). A report from BOVAG & HBD (2008) states that the sales of electronic bicycles are increasing but still havr to work on its image to become more accepted. Cherry en Cervero (2007) state that in China the electrical bicycle is already very popular and it is mainly used by people to get to work. These same e-bike owners previously used public transport to get to work.

With the shrinking market an analysis for new entrants in the Dutch bicycle industry would give more perspective on market performance. However there is no research published to this date that analyzes the Dutch industry market performance for new entrants. Porter (2000) states in his publication “How Competitive Forces Shape Strategy” that understanding the competitive forces and their underlying causes can give a clearer picture of an industry’s current profitability and is useful for strategic positioning.

Literature shows that the various parts of bicycles go through multiple stages in a supply chain. The frame is considered the most vital piece in these stages, every other component of a bicycle (e.g., rims, forks, handlebar and wheels) is manufactured independently from each other. Only after these components are assembled with the bicycle frame it will result in a finished product, known as whole bike (Ulrich, 1995). A company can consider to outsource different components or stages in the supply chain and only play a role in the selling and marketing process.

In Europe many manufacturers outsource the production of components (and frame) to Asia and assemble the bicycles in Europe. Eckhardt (2009) discusses the struggle these European assemblers/importers have with import duties and their dependence on Asian partners, while simultaneously trying to protect their own market from Asian brand bicycles. Major American brand companies were already familiar with outsourcing in Taiwan and China such as Trek, Specialized and Cannondale. Particularly in Taiwan, High-end bicycles are produced by subcontractors or original brand manufacturers (OEM) such as A-pro, Kinesis and CBC for these major brands (Randal and Ulrich, 2001). OEMs allow a company to manufacture needed components without owning and operating a factory. According to Taiwan Bicycle Exporters Association (2012) Taiwan’s major export markets in 2011 were the European Union (62.8%), North America (16.5%) and Japan (6.1%).

A study from Yu-Shan Chen & Ming-Ji & Ching-Hsun & Fang-Mei (2009) states that Taiwan is known as the high-end bicycle country from where the majority of bicycles are produced. Due to China’s cheap labor force, many Taiwan bicycle manufacturers have established factories in China but retained their technological know-how in Taiwan. Therefore Taiwan constantly stays a step ahead of its competitors. An increasing concern however is the brand establishment of Taiwan manufacturers, many of them are still active in OEM production for foreign brands. Only several manufacturers have been able to create a global brand on the sideline, such as Giant and Merida ( Yu-Shan Chen & Ming-Ji & Ching-Hsun & Fang-Mei, 2009).

Eckhardt (2009) state that next to the European manufacturers, who import and assemble bicycles, there are also three other type of import-dependent companies: sporting goods retail chains, supermarkets and independent bicycle dealers (IBD) who are part of buying associates. A buying associate is a central organ that functions as a wholesaler for these IBDs. They will buy large quantities of bicycles and store them in warehouses. IBDs are then able to purchase these bicycles at any time and at any quantity. Eckhardt (2009) points out that it benefits the IBDs, because it is cheaper for them than dealing with the producer individually for a few bicycles and it gives them more flexibility.

The majority of important researches were published between 1999 and 2008, after which research in this field has started to focus more on the environmental, sustainable and safety issues. The bicycle is a very popular transport vehicle in the Netherlands, which has been used as a case study for many bicycle related studies. Including transport methods, safety, policy making, environmental influences, health benefits, bicycle behavior and more. Surprisingly, few topics have been researched from a business perspective, specifically for the Dutch bicycle sector. There is only one (advisory) report from a consultancy firm that gives a better perspective of the Dutch bicycle retail environment, but not so much on the industry. Moreover they have not applied any popular theoretical frameworks such as Porters 5 forces. Further research is required in the Dutch bicycle industry from a business administration perspective

# 3. Methodology

## 3.1 Introduction

The main question of this research is: “How is it feasible for Point Asia and Xinosys to introduce Pedaling Forward in the Dutch bicycle industry?”

In the main question there are four points that have to be clarified. First, Pedaling Forward’s role in the main question. Second, the nature of the relation between Point Asia, Xinosys and Pedaling Forward. Third, the scope of the Dutch bicycle industry. Fourth, what the feasibility entails.

From a business administration or retailer perspective there is very limited literature about the Dutch bicycle industry. Explorative research was required to find more information about these topics. Desk research was used to build prior knowledge about the market and its performance and qualitative research was used to explore the retail market more in depth. To further explore the information gathered by both desk and qualitative research, quantitative research was applied. This method also helped validate the previous research by triangulation (Verhoeven, 2004).

## 3.2 Data Collection

The data collection is based on triangulation of desk-, qualitative- and quantitative research. Triangulation has the advantage of cross referencing different types of sources to improve the validity (Verhoeven, 2004). Desk research was used to explore the bicycle industry and build a basis of knowledge for the qualitative research. Qualitative research was used to formulate themes and topics for the quantitative research, get a deeper understanding of the bicycle industry and Pedaling Forward. Quantitative research was used to map correlations in the different topics discovered in the qualitative research.

### 3.2.1 Desk research

Desk research included internal and external desk research. Internal desk research included exploring the company policies, reports and system. It existed out of qualitative information. This information was gathered from Pedaling Forward’s internal database, for more insight about Pedaling Forward.

External desk research is based on business journals, articles and market reports. The literature was gathered from online sources that include secondary literature. Market reports included both quantitative and qualitative information. This information was gathered for more insight in the Dutch bicycle industry.

### 3.2.2 Qualitative research

A major part of the research included qualitative research by conducting internal- and external interviews and by qualitative observations. Internal semi-structured interviews were held with 4 employees working on Pedaling Forward. External semi-structured interviews were held with 10 independent bicycle dealers (IBD) in the Netherlands who fitted the target market description. For privacy reasons the last name has not been included.

Table 1: Interview participants

| **Internal semi-structured interviews** | **External semi-structured interviews** |
|---|---|
| Yi-ching Chung (CEO of Point Asia) | Gerlof (Owner of Salomo Bikes) |
| Even Chung (CEO of Xinosys) | Pieter & Joris (Owners of Pilot Cycles) |
| Sean Wei (Senior account manager) | John (Owner of vanHerwerden) |
| Lilian Yu (Head of marketing) | Jurrian (Owner of Bike Passion) |
| | Kees (Owner of Goodbikes) |
| | Siebrand (Owner of The Cyclist) |
| | Michel (Owner) & Tom (Employee) (of Bikelane) |
| | Martin (Owner of Bike Action) |
| | Marcel (Owner of Beukers Bike Centre) |
| | Evert (Owner of Rijwielpaleis) |

The internal interviews took place in Taiwan in an office environment. The external interviews took place in the Netherlands in the interviewee's shop, where the researcher was accompanied by a Pedaling Forward employee. At the external interviews the researcher was introduced as an employee of Pedaling Forward to increase the reliability of the interviewees' reaction and answers. These interviews were gathered for in-depth information for Pedaling Forward's business model and the bicycle retailer segment.

During the employments of the researcher at Pedaling Forward, qualitative observation were done that helped the researcher understand the context of the topics discussed.

### 3.2.3 Quantitative research

Quantitative research was performed after extensive desk and qualitative research. After the qualitative phase, 29 semi-structured interviews with independent bicycle dealers (IBD) in the Netherlands were performed over the phone from Taiwan. Names and positions of the interviewees were not considered relevant. A full list of the participant shops can be found in the results (appendix 4). The interview was divided in four different discussion themes that were briefly covered with each IBD. Based on the discussion the researcher ranked 3 topics per theme by an ordinal scale of 1 to 5. This quantitative information was gathered for verify and connect information of qualitative research

## 3.3 Data Analysis

Three types of data analysis were used for the qualitative- and desk research. Business model canvas, porters 5 forces and thematic analysis. Two types of data analysis were used for the quantitative research; thematic analysis and spearman's correlation coefficient. The business model canvas was used as the begin- and end picture of the report. Through porters 5 forces analysis and thematic analysis in combination with the correlation analysis, the resulting business model canvas has been formulated.

### 3.3.1 Desk- and qualitative data analysis

Desk research information was summarized multiple times to narrow down the most significant information. Internal interviews were transcribed and summarized by the researcher. External interviews were summarized after the interview.

After narrowing down the most significant pieces of desk research and internal interviews research, a business model canvas was drafted. The business model canvas was used because it is an effective method to map a business model (Osterwalder & Pigneur, 2010). This business model gave more insight in Pedaling Forward, Xinosys and Point Asia.

The external interviews were used in combination with desk research to execute porter 5 forces analysis. Porters 5 forces was used, because it gives a clearer picture of an industry's current profitability and is useful for strategic positioning (Porter, 2000). This information was used to support findings about barriers and drivers that Pedaling Forward could encounter in the market and give more insight in the Dutch bicycle industry.

The in-depth qualitative research of the external interviews were formulated by thematic analysis, which was used to give more insight in the topic (Boyatzis, 1998). Four themes recurred in the interviews, which were each divided in 3 topics. These themes and topics were the basis for the quantitative research.

### 3.3.2 Quantitative data analysis

The quantitative data was divided in 4 themes with each 3 topics formulated by the qualitative research. Each topic was ranked by an ordinal scale of 1 to 5. Spearman's correlation coefficient test was used to find relationships between the different topics and validate the qualitative data that was collected on each topic. Spearman's correlation coefficient was used because it is recommended for ordinal correlations (Fieller, Hartley & Pearson, 1957). Also the mean of the results has been calculated to discover a general opinion of each topic.

## 3.4 Research Limitations

The research is focused on Pedaling Forward and not the companies Point Asia and Xinosys, because their major focus and investment is in Pedaling Forward. It is also limited to the Dutch bicycle industry because of Pedaling Forward's business nature and interest in the Netherlands. Furthermore the research does not include an extensive financial analysis, because the company policy did not leave space for major investments. Therefore the report focus was limited to feasible approaches for Pedaling Forward.

The researcher worked as an intern of Point Asia for Pedaling Forward. The data of the research was collected in the period of March 2013 until August 2013. A major part of the research was done in Taiwan and partially in the Netherlands.

# 4. Findings

Chapter 4.1 explains the business model of Pedaling Forward based on qualitative research and observation. Chapter 4.2 overviews the Dutch bicycle industry through Porter's 5 Forces model, based on qualitative and desk research. Chapter 4.3 covers findings made about independent bicycle dealers through thematic research by qualitative and desk research. Chapter 4.4 uncovers correlations derived from the thematic research through quantitative research.

## 4.1 Pedaling Forward Business Model

The business model of Pedaling Forward has been formulated by (qualitative) observations and semi-structured interviews with employees of Pedaling Forward, including the CEO of both Point Asia and Xinosys, head of marketing and senior account manager (appendix 6). Figure 3 shows the business model canvas according to Osterwalder & Pigneur (2010); it exists of 9 sections that together formulate the business model. The business model canvas is recognized as a multi-sided platform model. Both manufacturers and retailers are required to run the business model (Osterwalder & Pigneur, 2010).

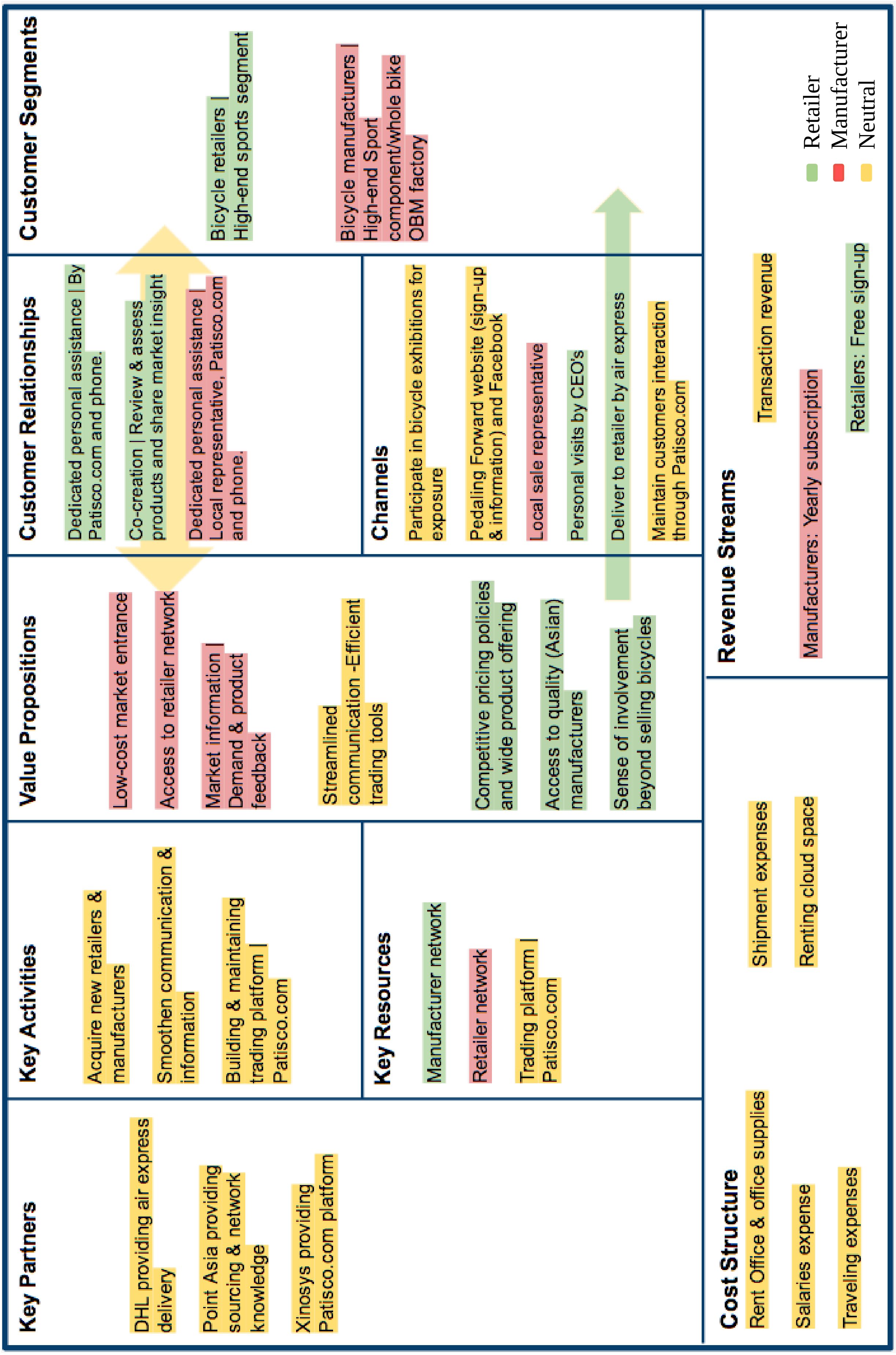
### 4.1.1 Customer segments

The Pedaling Forward project is solely focused on the bicycle industry. It therefore only trades in bicycle components, accessories and complete bicycles. All the factories that already participated in Pedaling Forward are original brand manufacturers (OBM) of high-end sport bicycles and components. Sport bicycles (and coherent components) can be simplified by two categories; MTB and race bicycles. Concurrently, Pedaling Forward also focusses on contacting more manufacturers who emphasize quality and aim to develop their own brand.

Due to Pedaling Forward's manufacture participants, its target group is sport bicycle specialist retailers who focus on service and professionalism selling high-end bicycles, parts and accessories. According to Meijer & Van der Ham (2011) they are recognized as niche shops, who are highly focused on professional or serious MTB- and/or race bicycle consumers.

According to the CEO of Xinosys, Even Chung, they focus on sport bicycles (and components) manufacturers in Taiwan because it is light weight, expensive and has a high profit margin. These characteristics can compensate for the small order quantities and costly shipping fee conditions further explained in chapter 4.1.3.

Figure 3: Business model canvas - as is



### 4.1.2 Value proposition

Pedaling Forward offers different value propositions for two customer segments. The first customer segment (OBM factories) are attracted by the following:

I. Low market entrance cost – According to Sean Wei[1] original brand manufacturers (OBM) normally have to go through multiple layers of distributors before reaching their end-consumer, which is a costly process. However, through Pedaling Forward they can directly access their most vital distributor and collectively bare the involved costs.

II. Access to a wide retailer network – At the moment Pedaling Forward counts 105 retailers globally (Sean Wei, 2013), which is a valuable asset for manufacturers.

III. Local market information and feedback – The system promotes communication (and feedback) from retailers and accurately records sales, which can give valuable market information to manufacturers (Even Chung[2], 2013)

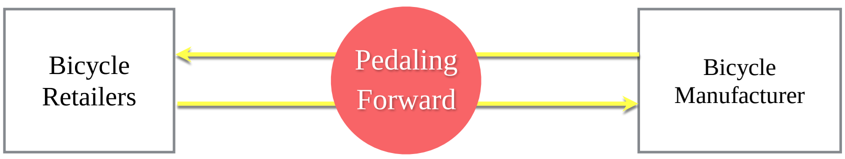
The second customers segment (retailers) are attracted by the following:

I. Competitive pricing policies and product offering – According to Yi-Ching Chung[3] the direct delivery from the factory, even with costly shipment, is very competitively priced compared to other brands. Also the retailers do not have to commit to high order quantities, and can collect small orders from different factories. He also emphasizes that newly developed products are available quicker in their product offering.

II. Access to quality manufacturers – Next to the brands that OBM factories sell, they are also able to provide services to customized products for retailers (Yi-Ching Chung, 2013).

III. Sense of involvement – Even Chung states that retailers are full of ideas and feedback that can never be expressed to the brand manufacturers due to lack of direct communication channels. Furthermore the collective demand of bicycle retailers can influence the product development.

Figure 4: Pedaling Forward's role




For both manufacturers and retailers the trading and communication tools that Patisco.com provides promotes efficient and safe business to business trading.

[1] Sean Wei, Senior account manager, Pedaling Forward
[2] Even Chung, CEO of Xinosys
[3] Yi-Ching Chung, CEO of Point Asia

### 4.1.3 Channels

Pedaling Forward reaches out to its manufacturer customer segment by:

I. Bicycle exhibitions – Many manufacturers attend these exhibitions and are attracted by the instant connection they can have with (retail) exhibitors (Lilian Yu[4], 2013). International bicycle exhibition such as Taipei bicycle show include many manufacturers.

II. Sales representatives – Two employees of Pedaling Forward actively visit and recruit new manufacturers in Taiwan.

Pedaling Forward reaches out to its retailer customer segment by:

I. Local bicycle exhibitions – Many retailers attend local bicycle exhibitions (Lilian Yu, 2013). By accompanying one of Pedaling Forward's manufacturers to these exhibition, retailers are attracted by the instant connection they can have with the manufacturers.

II. Pedaling Forward website – The website enables retailers to directly sign-up and overview the value of Pedaling Forward.

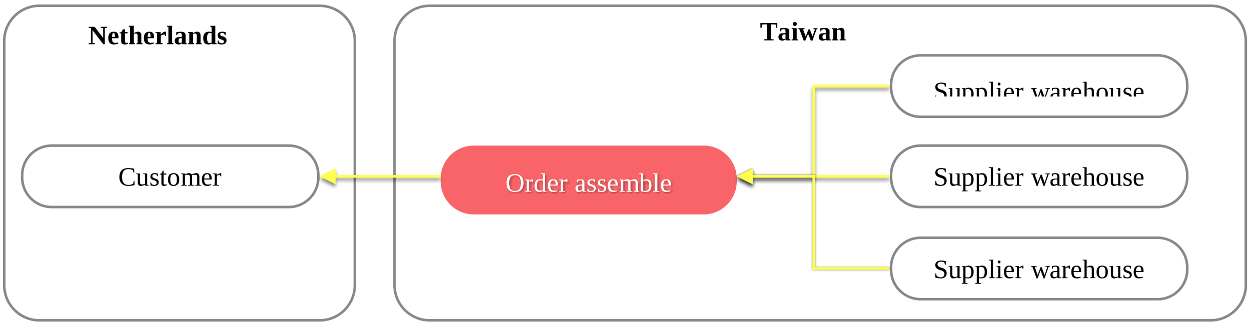
III. Sale representative (business trips) – The recruitment of retailers is currently only done by the CEO of Point Asia and Xinosys visiting these retailers in person on their business trips to Europe and North America. It is limited to these resources due to budget constraints and integrity concerns (Yi-Ching Chung, 2013). According to Yi-Ching Chung these visits are very effective and successfully sign-up retailers. The downside however is that it is time and money consuming and the follow-up is complicated after they return back to Taiwan.

Pedaling Forwards actively publishes its activities on its Facebook page, such as new product releases, product reviews, opinions and special highlights such as new suppliers joining the program and business trips by one of the owners. This is done to create public awareness and connect to both segments (Lilian Yu, 2013).

Pedaling Forward handles all transportation and duties of products sold through Patisco.com. As manufacturers maintain their inventory at the factory, all parts have to be sent to a central location for order packing, after which they are shipped to the customer by DHL air express (figure 3).

[4] Lilian Yu, Head of marketing, Pedaling Forward

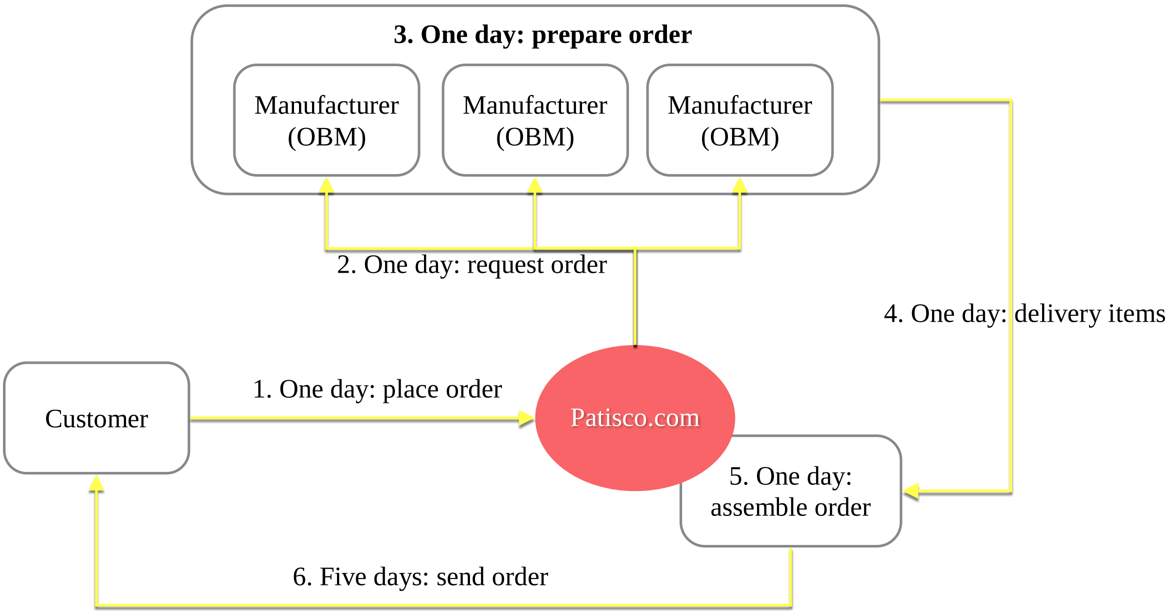
Figure 5: Shipment process from supplier to customer.




Because air express is costly there is a total minimum order price of €500, otherwise a fee of €50 is added to the total.

From ordering to delivery (see figure 4), the total lead time is approximated at 10 working days, however according to Even Chung in practice a delivery to Canada was done within 7 days.

Figure 6: Order lead time and process.




After sale is done through Patisco.com by processing al questions and problems through the communications tools that are provided (Lilian Yu, 2013).

## 4.1.4 Customer relationship

According to Even Chung co-creation is an important aspect of Pedaling Forward relationship between manufacturers and retailers. Retailers are able to share reviews and indirectly market information with manufacturers. As a result trust in the products is built and market transparency is created (Even Chung, 2013).

Retailers have dedicated personal assistance through Patisco.com and over the phone. The manufacturers also have dedicated personal assistance through Patisco.com and phone, but also the local representatives. Dedicated personal assistance is to source all needs, demands, questions and problems from retailers to manufacturers and vice versa (Lilian Yu, 2013). According to Sean Wei the communication tools in Patisco.com play an important role in this relationship.

### 4.1.5 Revenue streams

Pedaling Forward gross an estimated margin of 35% of each transaction between the retailers and factory, depending on the size and value of the goods. However, a large amount, going up to 30%, of this transaction goes to the high transportation cost. An additional revenue stream is the supplier's annual subscription fee of €3,000 for participation in the Pedaling Forward project and access to a master account in Patisco.com (Even Chung, 2013). The retailers do not pay a fee or subscription and can sign up for free.

### 4.1.6 Key resources

There are three resources most vital to Pedaling Forward:

I. Manufacturer network – The manufacturers are important because otherwise there would be no product offering, thus no retailers.
II. Retailer network – The retailers are important to the manufacturers, without them no sales are possible, thus no reason to participate.
III. Trading platform – Patisco.com is between the two parties and responsible for all the interaction between parties.

### 4.1.7 Key activities

The most important task for Pedaling Forward is acquiring new retailers and manufacturers in order to strengthen the community and thereby the demand and supply. Furthermore it is important for them to smoothen the communication and information between the two parties, while building and maintaining Patisco.com trading platform.

### 4.1.8 Key partners

Pedaling Forward inherently needs Point Asia for its suppliers network and trading experience and Xinosys for its Patisco.com platform. Also a partnership or contract with DHL is important to get favorable shipment quotes.

### 4.1.9 Cost structure

The most important cost of Pedaling Forward are the office rent, salaries, traveling expenses, shipment cost and cloud space rent through Amazone.com for its Patisco.com system. The exact cost and budgets were not disclosed, due to company secrecy.

## 4.2 Industry analysis by Porters 5 forces

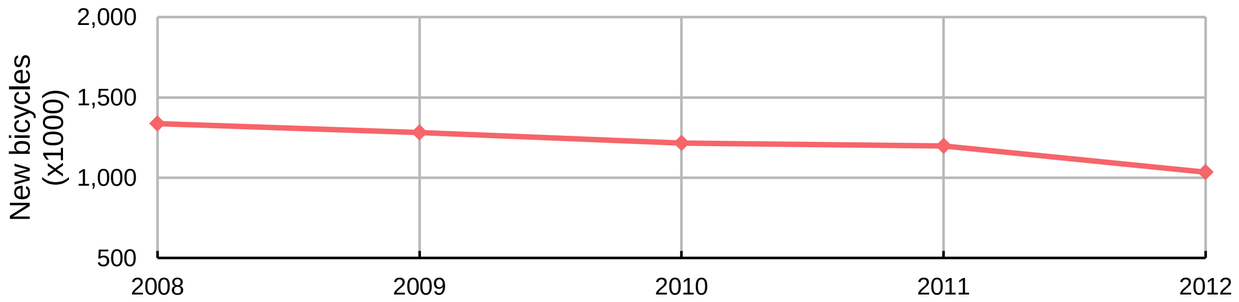
Desk research information has been gathered about the Dutch bicycle industry. In addition, the qualitative research from interviews with bicycle retailers and Pedaling Forward's employees gave more in depth findings. To give a clear image of the results; the Porters 5 forces model was applied. The Dutch Bicycle industry is viewed from a business to business (B2B) market perspective. The grade of each force has been calculated by using the 5 forces model from Rustenburg Consultancy (2007) (appendix 3).

Figure 7: Porters 5 Forces Model


### 4.2.1 Threat of new entrants

There are 2,488 companies active in the Dutch bicycle industry (appendix 1) (Dutch Chamber of Commerce, 2013). The industry has a daily net average of 10 companies quitting. According to RAI (2013) there is a very high distribution coverage of 60 significant companies that overlap each other. Furthermore, there is a decreasing revenue in new bicycle sales in the last 5 years (chart 1) (RAI, 2013, Marktinformatie Fietsen).

Chart 1: Total sales new bicycles, 2008-2012




Source: BOVAG-RAI/CBS/Gfk Retail and Technology Benelux B.V., 2013

Relative to other European countries the Dutch market is attractive to newcomers, because of its high concentration of bicycles. Each household has an average of almost 3 bicycles and in total the

Netherlands has 18 million cyclers. The company COLIBI-COLIPED (2012) claims that the sales in replacement parts has grown, in contrast to sales of new bicycles

According to Pilot Cycles, an aspiring distributor, it can be very difficult to enter the market as a new distributor as it requires a network and reputation. Joris[5] from Pilot Cycles claims that in the Netherlands retailers have high expectations from distributors. Nearly every retailer expects delivery within 48 hours and an easy method to place orders. He also says: *"To meet such expectations we need enough starting inventory and an adequate warehouse, both of which are costly".*

IBDs who are part of a buying association are not interested in a new distributor. Biretco, Bike Totaal, Bikes & Retail and ZEG are the largest associations (RAI, 2013, Marktinformatie Fietsen). These associations are explained by Eckhardt (2009) as a central organ which functions as a wholesaler for IBDs. To do that they have central contracts with suppliers, which also restrict the IBDs to these. According to Rabobank (2013) and Meijer & Van der Ham (2011) these buying associates are an important development in the bicycle industry for stability in the market and are expected to be stimulated in the coming time.

### 4.2.2 Bargaining power of buyers

Independent bicycle dealers (IBD) are starting to purchase in smaller volume and hold less inventory, thereby relying more on quick delivery times (Meijer & Van der Ham, 2011). They have also become more price sensitive and struggle to withhold good profit margins, because of e-commerce (Even Chung, 2013). According to Yi-Ching Chung e-commerce has opened a grey market where lost products and oversupply are offered at low prices. The oversupply in the market was also mentioned by Meijer & Van der Ham (2011). They state that there is an overproduction in the market caused by suppliers that are focused on bulk discounts and bad market feedback resulting in bad predictability. Yi-Ching Chung mentions: "*These e-tailors basically rely on oversupply from major brands that cannot be sold to their regular channels, so the end up on the internet for discount prices".*

E-commerce has also opened doors and pushed retailers to find alternatives. The owner of Rijwielpaleis for example manufactured its self-developed brand bicycle frames in Taiwan and sells them for a good margin in his local market. Other high-end retailers such as Beukers bike center, The Cyclist and vanHerwerden shared common practices of owning a bicycle brand. Also Salomo bikes is currently busy setting up his own bicycle brand. This has resulted into increasing bargaining power for these retailers.

Furthermore, independent bicycle dealers (IBDs) are still considered by RAI (2013) to be the most important point of sale for the bicycle industry. They offer vital services in the industry that stimulates

[5] Joris, co-owner of Pilot Cycles

the bicycle usage. A good 66% of new bicycle sales still goes through IBDs (RAI, 2013, Marktinformatie Fietsen). Therefore distributors and brand companies are still very dependent on the success of specialized retailers.

### 4.2.3 Bargaining power of suppliers

The high coverage and overlap of suppliers (chapter 4.2.1), decrease the bargaining power of suppliers. It is very hard for distributors to differentiate in product offering, so they increasingly have to compete with brand exclusivity and prices (Pieter[6], 2013). The overseas importing and own brand creation by retailers is also undermining the role of distributors. According to Pilot Cycles many distributors have reacted on these changes by actively selling through the internet from a central warehouse and at the same time also develop their own bicycle brand, thereby becoming less dependent on retailers.

Higher up the chain, major brands such as Specialized, Giant and Trek are applying more pressure in the retail market by vertical integration of establishing brand concept stores. Individual retailers who carry these brands in the same area lose sales, whilst they have lower priority and less beneficial arrangements with the brand supplier (Uppelschoten, 2012).

E-commerce's pricing pressure also impacts distributors, because they are forced to more frequently purchase in bulk for discounts. According to Even Chung one of the buying associates in the Netherlands, ZEG (also active in other European countries) is heavily dependent on large quantity purchases, in order to retain reasonable profit margins, but at the same time stacks unsaleable inventory over multiple locations.

### 4.2.4 Threat of substitutes

The bicycle is a means of transportation for short distances and can be replaced by public transport and electric cars. Rabobank (2013) believes that the market might transform from bicycle retailers to mobility retailers who specialize in short distance transport. This is also the result of increasing cost and inconvenience of transport by car and growing concern for the environment in the Netherlands (Pucher & Buehler, 2008). The growing demand for electric bicycles (e-bikes) is a stepping stone towards this market and already plays an important role among independent bicycles stores (IBDs). On average 42% of an IBD's revenue has come from e-bikes in 2012. According to the owner of Beukers Bike Centre e-bikes can be sold for a good margin and require more complicated parts that need servicing. The average e-bike sells for €1,821. Market experts from the Rabobank (2013) believe that this market will grow rapidly in the coming years. This is also reflected in the increasing proportion sales of e-bikes from 10% in 2008 to 17% in 2012 (RAI, 2013, Marktinformatie Fietsen). Interestingly, e-bikes are normally associated with commuting bicycles but are now also becoming more available as sport bicycles (John[7], 2013).

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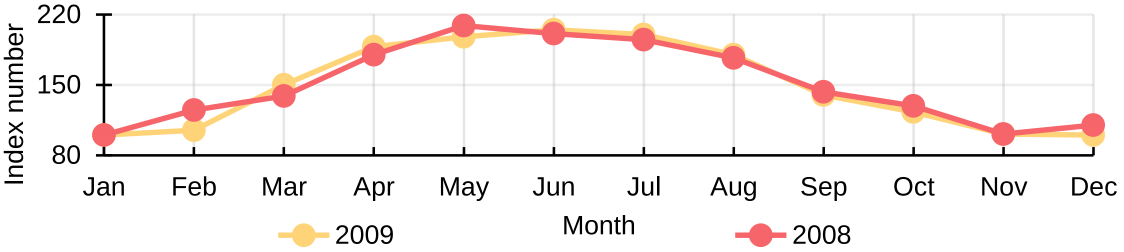
[6] Pieter, Co-owner of Pilot Cycles
[7] john, Owner of vanHerwerden

### 4.2.5 Rivalry among existing firms

Previously discussed topics: decreasing market revenue, market transparency, e-commerce, oversupply, high distribution coverage, low product diversity and low switching costs for buyers; make the bicycle industry a very competitive market. Also according to the RAI (2013) the distribution sector has high rivalry. Furthermore, according to Meijer & Van der Ham (2011) the market was saturated by many companies during its booming years, but is currently it is facing a tougher market which requires leaner operations. Therefore buying associates are becoming more popular among independent bicycle dealers (IBD) and is perceived as important by the Rabobank (2013). Collectively buying from producers benefits the IBDs with more flexibility and lower purchasing prices (Eckhardt, 2009).

The industry is sensitive to the weather conditions and has increasing revenues equivalent to the number warm days (Boggelen, 2007), this is reflected in the spring and summer period (chart 2). Therefore companies in the industry depend on a limited period of revenue, which influences the purchasing process of retailers and production periods of producers.

Chart 2: Bicycle industry revenue per month, starting index 100 (2008 & 2009).




Source: HBD, 2009

The largest distributor in the Netherlands is Juncker parts, it is a daughter company of the only public company Accel-Group NV. Accel-Group owns multiple (daughter companies) brands including Koga, Batavus, Van Nicholas and Sparta (Accel-Group, 2013). They also are one of the few companies that distributes popular brands such as SRAM, Schwalbe and Campagnolo. Their distribution network system is supported by their IT solution named Accentry, which retailers can also use to purchase products (Juncker Bike Parts, 2013).

Several retailers found distributors through Alibaba.com, an online open market trading platform for business to business, which is not focused on the bicycle industry specifically but rather on the international trade of (Chinese) manufacturers with overseas buyers (Alibaba, 2013). Two out of 10 retailers mentioned Alibaba.com as a channel they had considered. However these manufacturers are often agencies of a factory or falsely act as a manufacturer, who in most cases cannot be trusted (Yi-Ching Chung, 2013).

## 4.3 Thematic research

In the qualitative semi-structured interviews with 10 independent bicycle dealers (IBD) in the Netherlands, the following main themes continued to repeat:

- Import from Asia
- Brand recognition
- Pricing policies
- Product offering

Please see appendix 5 for highlights of the interviews.

### 4.3.1 Import from Asia

When talking about Asian countries, specifically Taiwan and China are targeted; other Asian countries, such as Vietnam, are also known to export bicycle products but were not mentioned once by any of the interviewed retailers during this research.

The main incentive for these retailers to contact Asian suppliers is to develop their own brand bicycle. They do this by purchasing the bicycle frame from original design manufacturer (ODM) and then brand and assemble the bicycle themselves. The self-developed brand bicycles drastically increases profit margins in comparison to other brands (Marcel[8], 2013). Other retailers have been highly focused on customizing bicycles for individual customers and therefore import exotic or profitable components from Asia (Kees[9], 2013).

In many cases though the e-mail communication and arrangements with foreign suppliers could take up to months, which discouraged the retailers to import more frequently. Especially in case of damaged or incorrect products the return policies were confusing or too much trouble with Asian suppliers.

Three sub-topics recurred:

(1) Customs & Shipment – The customs & shipments from Asia to the Netherlands are not specifically about a time issue, but also the fear that IBDs have with shipping and passing by customs during import. The greatest fear for these IBDs was getting past the custom duties. Customs could delay the shipments significantly or unexpectedly charge a fine. However, IBDs with more experience in importing were more accepting to these problems.

(2) Lead Time – Lead time is closely related to the customs & shipment but it also depends on the communication and the process of arranging business with Asian suppliers. The retailers had general complaints about the communication with Asian suppliers and were completely dependent on email. Moreover these retailers could not always rely on solid delivery times.

[8] Marcel, owner of Beukers Bike Centre
[9] Kees, owner of Good Bikes

(3) After sale – Some IBDS showed a concern for after sale services when importing. It included uncertainty about factory guarantee, product information and sustainable trade relationship. There were concerns about trust and reliability of suppliers. With opinions divided, these IBDs in general did not rely on any after sale service.

### 4.3.2 Brand recognition

Bicycle retailers have reduced the amount of brands in their shops over time for different reasons, such as their pricing policies and profit margins (Kees, 2013). For example the brand Specialized has a 190 day credit line for retailers when a considerable large quantity is purchased (Martin[10], 2013). This policy offers breathing room for retailers to sell the bicycles, but according to the owner of Bikelane the minimum order quantity very high and will include slow moving products.

According to the owner of Bike Action, customers in the Netherlands are brand focused during their buying process. Other retailers that focused on selling specific major brands also shared the same opinion. However, retailers with a self-developed brand were able to argue that their bicycle expertise overcame brand recognition during the buying process of a customer.

Three sub-topics recurred:

(1) Brand focus of customers – Brand focus is the level of importance of a brand in the buying decision of customers. IBDs had different opinions about how important it is to sell a brand, as some believed the brand played a smaller role than their expertise.

(2) Brand value for retailers – Brand value is the value that retailers give to a brand, specifically the reliability and trust they place in a brand's policies. Almost all IBDs removed (renowned) brands from their assortment and some have gone as far as focusing on just a few brands.

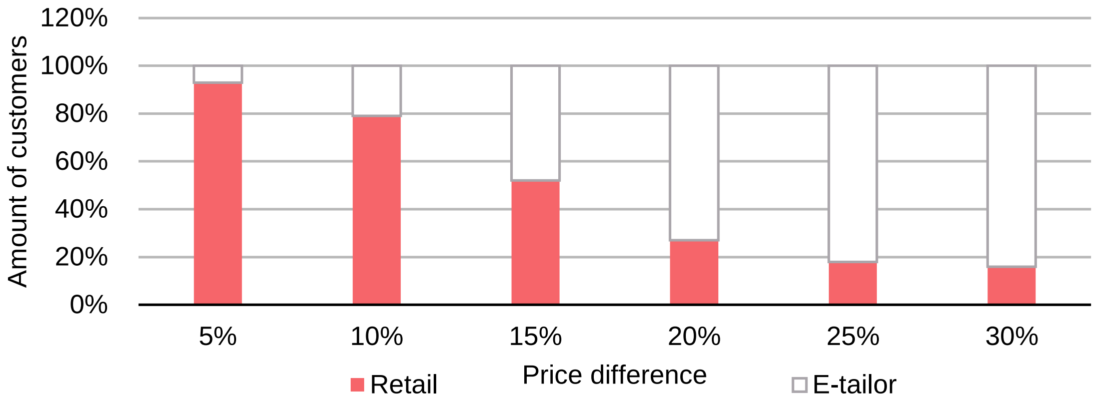
(3) Asian brand reliability – Reliability of the Asian brands is the level of trust and appreciation retailers put in Asian brands. Some IBDs are enthusiastic about the brands and others not at all. Often reliability of the suppliers was the issue, not the quality of the products.

### 4.3.3 Pricing policies

Prices were an important factor for many independent bicycle dealers (IBD). E-commerce is challenging the components segment (Michel[11], 2013). According to Meijer & Van der Ham (2011) consumers are more likely to purchase bicycles from e-tail with a price higher than 15% (chart 3).

[10] Martin, owner of Bike Action
[11] Michel, owner of Bikelane

Chart 3: Consumer purchasing behavior confronting price differences in retail and e-tail.




Source: Meijer & Van der Ham, 2011

Furthermore, Meijer & Van der Ham (2011) claims the trend of online sales will likely increase in the future.

Three sub-topics recurred:

(1) Purchasing price orientation – This topic is the level of importance of purchasing prices to IBDs. To what extent they focus on getting the best price or rather trade for better service such as quick delivery times. Two high-end bicycle retailers claimed to put more emphasis on trust and reliability rather than prices, while others had big concerns about the pricing policies of their suppliers.

(2) Consumer price orientation – This topic shows the level of importance of competitive consumer prices for the buying process of consumers. Most retailers claimed that pricing strongly influenced the buying process of consumers. On the other hand few retailers, stated that competitive pricing was less important than excellent service.

(3) E-commerce competitiveness – E-commerce was a strong topic discussed by all IBDs and has a strong relationship with the consumer price orientation. It shows whether retailers feel pressure from e-commerce and how this influences their decision making. Retailers were in general negative about e-tailors and related this to their low profit margins.

### 4.3.4 Product offering

Product offering is closely related to the brands recognition and import experience of retailers. Depending on the experience, a focus on selling whole bikes was primary for many retailers. Components were not evenly favored. In one case a retailer emphasized the sales of accessories such as clothing. It has been divided in the following three topics:

(1) Components – Ulrich et all. (1995) claims that a bicycle consists of many components where the frame is the dominator. After assembly of all components the bicycle is considered a finished product, also known as a whole bike. Components are also sold separately. This element shows the level of emphasis these IBDs put on selling components separately. In general they have ceased to sell them and only stock vital parts, because online prices have been too competitive.

(2) Whole bikes – Whole bikes are the finished product, that includes all the assembly of all components. Some IBDs have focused on selling whole bicycles as a priority, as there still is a margin reasonable margin. This element shows the level of important to the IBDs of selling whole bikes.

(3) Segment focus – Segment focus shows the range of bicycles. Sport bicycles can be divided in three segments; low-, mid- and high end. The differences in these segment products are the type of material and quality that is used for the bicycles. 7 out of the 10 IBDs were high-end focused bicycle shops, while the other 3 were mid-end. Only the mid-end shops also sold low-end city bicycles while the others mainly focused on sport bicycles.

## 4.4 Correlation research

The following consists of quantitative research; 29 random independent bike dealers (IBD) were briefly interviewed over the phone about the topics formulated in chapter 4.3. Based on the answers from these IBDs the researcher rated the topics by an ordinal scale of 1 to 5. In appendix 4 the definition of these ordinal scaled topics are clarified. Afterwards Spearman's correlation coefficient was applied to find correlations between the variables. Spearman’s correlation coefficient was used because it is recommended for ordinal scale based correlation (Fieller, Hartley & Pearson, 1957). The full results of the Spearman correlation can be found in appendix 4.

### 4.4.2 Spearman’s Correlations efficiency

Strong correlations above the 0.5 mark have been recorded, other correlations have not been considered. There are in total 15 correlations between topics spread over the four themes, from strongest to weakest: Import from Asia, product offering, brand recognition and pricing policies. Import from Asia has the strongest correlation presence together with product offering. The most recurring topic is components, followed by customs & shipments and whole bikes.

Table 2: Result of Spearman’s correlation efficiency test

| Correlations | Positive Correlation | Negative Correlation |
|---|---|---|
| **Customs & shipment - Asian Brand** | 0.531 | |
| **Customs & shipment - Components** | 0.622 | |
| **Customs & shipment - Whole Bike** | 0.586 | |
| **Customs & shipment - Segment focus** | 0.674 | |
| **Lead time - After sale** | 0.678 | |
| **Lead time - Cons. Price** | 0.512 | |
| **Lead time - Components** | 0.632 | |

| Correlations | Positive Correlation | Negative Correlation |
|---|---|---|
| **After Sale - Components** | | 0.500 |
| **Brand Cons. - Components** | | 0.614 |
| **Brand Cons. - Whole Bike** | 0.537 | |
| **Brand Asian - Components** | 0.557 | |
| **Cons. Price - Components** | | 0.567 |
| **Components - Whole Bike** | | 0.677 |
| **Components - Segment focus** | 0.789 | |
| **Whole Bikes - Segment focus** | | 0.549 |

### 4.4.3 Mean result

The mean has been derived from the all the ordinal scale results of the 29 random independent bicycle dealers (IBD). The full result can be found in appendix 4. It shows that in general all topics except customs & shipments, brand Asian and components have a high ranking.

Table 3: Mean of ordinal scale results

| Themes | Topics | Mean | Meaning |
|---|---|---|---|
| **Import from Asia** | **Customs & shipment** | 2 | Little experience |
| | **Lead times** | 4 | Important |
| | **After Sale** | 4 | Important |
| **Brand recognition** | **Brand cons.** | 4 | Important |
| | **Brand retail.** | 4 | Important |
| | **Brand Asian** | 3 | Neutral value |
| **Pricing Policies** | **Cons. price** | 4 | Important |
| | **Purch. price** | 4 | Important |
| | **Ecommmerce** | 4 | Threatened |
| **Produce offering** | **Components** | 2 | Low degree |
| | **Whole bike** | 4 | High degree |
| | **Segment Focus** | 3 | Mid-end |

# 5. Discussion

## 5.1 Barriers and drivers

The most remarkable barriers and drivers for Pedaling forward to enter the Dutch bicycle have been summarized in the following two sub-chapters.

### 5.1.1 Barriers

I. Shrinking market with high rivalry – The Dutch bicycle market has been shrinking over the last 5 years, is experiencing high rivalry and is over flooded with more than 2,400 companies in the industry. Not surprising that there is a daily average of 10 companies quitting (RAI, 2013, Marktinformatie Fietsen). The encouragements to create buying associates, as recorded in chapter 4.2.5, are also threatening to small distributors in the market and will result in cooperation with larger distributors who have popular brands. On top of that the market is sensitive to weather conditions, thus bad weather can highly influence the purchasing budget of retailers and its consideration for unknown brands.

II. Quick lead times expected – Lean operations are becoming more important in the market, therefore retailers have higher expectations of suppliers. Lean operations include handling smaller inventory levels that, according to Pilot Cycles, rely on quick lead times within 48 hours. Pedaling Forward's lead times however can take up to 10 days. Even though several retailers indicate in chapter 4.3.1 that they are more flexible with lead times while importing, the quantitative results in chapter 4.4.3 show that the majority find lead times and after sale important. On top of that retailers have to spend a minimum of €500 for each order, to save additional cost of €50, which is difficult for smaller follow-up orders to restock (chapter 4.1.4). Especially for the retailers who focus on a couple of brands, it is very difficult to mainly sell Pedaling Forward’s brands.

III. Consumers are brand orientated – Quantitative data in chapter 4.4.3 has shown that the majority of retailers believe that consumers are brand orientated. Therefore Pedaling Forward starts with a disadvantage by offering unknown Asian brands. Even though some retailers showed enthusiasm and confidence selling Asian brands, other retailers showed exactly the opposite. Interviews indicated, in chapter 4.3.2, that this might be a reliability issue and not quality.

IV. Asian suppliers are unreliable – Currently the general opinion of retailers is that Asian suppliers are rather unreliable. This is closely related to the Asian brand opinion. Even though retailers indicate that they do not doubt the quality of Asian brands, they fear the importing and communication with these suppliers (chapter 4.3.2). Only high-end retailers have been more acceptant of this, but also had their share of difficulties.

### 5.1.2 Drivers

I. E-commerce & market transparency – E-commerce has created unstable pricing and market transparency. Both consumers and retailers are more educated about the bicycle industry and its product origins. Retailers have already reacted by manufacturing in Asia for self-developed brands and focusing more on service (chapter 4.2.2). Pedaling Forward's goal accommodates these developments.

II. Major brands losing value – Major brands have been establishing concept stores that are in conflict with other local retailers selling the same or similar brands (chapter 4.2.2). These concept stores naturally have greater advantages over other retailers offering the same brand. Furthermore brands such as Specialized offer retailers a 190 day credit line, hence retailers purchase a large quantity (chapter 4.3.2). Even though it gives retailers more breathing room, at the same time it slowly overwhelms the retailer with unsellable stock. These kind of policies and movements from major brands make Asian brands through Pedaling Forward more attractive.

III. Oversupply and bad market feedback – The market oversupply and bad market feedback are enforced by the large quantity purchasing behavior throughout the supply chain (chapter 4.2.2). The previous mentioned Specialized 190 day credit line, encourages the oversupply in the market. Since these retailers purchase large quantities and stack old inventory; the actual consumer sales are clouded by this and therefore increase next year's expectations. Pedaling Forward's brands are factories that control the production and offer flexible terms & condition s that allow them to correctly react on demand.

IV. No reliable connections – IBDs have already connected with suppliers in China and Taiwan to produce their self-developed brand products, but in general their experience with communication and reliability is never too positive. Others have tried connecting with suppliers in China and Taiwan, but feared custom duties, shipment and long lead times (chapter 4.3.1). Pedaling Forward offers a reliable bridge between buyer and supplier with an effective platform (Patisco.com) with a focus on communication (chapter 4.1.1).

### 5.1.3 Competitors

The competitors were not elaborated in the findings, because the bargaining power of suppliers is significantly lower than buyers. Alibaba.com can pose a direct threat to Pedaling Forward because Alibaba.com allows retailers to get in contact with foreign suppliers and also has a platform to support it. However it is not focused on the bicycle industry, but on connecting buyers with suppliers. Juncker Bike Parts' umbrella company, Accel-Group NV, can pose a threat. As a sole public company in the bicycle industry from the Netherlands it has many daughter companies active in the European bicycle industry. Therefore it has the power to create additional barriers for Pedaling Forward. It has no interested in connecting retailers to manufacturers in Asia, since a majority of production is done there. Accel Group could fear that their OEM/ODM suppliers might become their competitors.

## 5.2 Limits of the business model

According to the business model canvas discussed in chapter 4.1, Pedaling Forward heavily relies on their suppliers for income and attracting retailers. Even though retailers are needed to acquire the suppliers, Pedaling Forward has local representatives actively recruiting and maintaining suppliers, but not retailers. Retailers are in most cases recruited through business trips, exhibitions and social/online media (Facebook and website). This makes it very hard for Pedaling Forward to follow-up on retailers and increase their retention rate. According to Yi-Ching Chung[12] they do not have any local representative because it does not fit in their budget and fear integrity issues. Therefore traditional models such as agencies in the local market would not be an option. Further research can show how Pedaling Forward can overcome the financial impact and integrity considerations when implementing an agency or recruiting local representatives.

The long lead time and minimum order price is a result of their current operation and limits their strength in the market. The right investments could tackle these limitations by establishing a central warehouse and distribution solution in a key area(s) nearby or in its target market. However this is too expensive to implement. Alternatively a partnership can be made with a local distributor to handle warehousing and distribution, but will conflict with the earlier integrity issues. Feasible solutions within their current operation methods can also be considered, such as adjusting the terms and conditions for follow-up orders, in order to overcome the long lead time and minimum order price limitation.

## 5.3 E-bike is the future market

Electric bicycles (e-bike) is a growing market that already captured 42% revenue of independent bicycle dealers in 2012 (RAI, 2013, Marktinformatie Fietsen). Moreover, retailers have shown that e-bikes are also available as sport bicycles, have good profit margins and contain many complex parts that require their services. The high service requirement also needs quick delivery times and smaller follow-up order for replacement items.

According to the literature from Cherry en Cervero (2007), China was already active in this market and e-bikes are very popular among the Chinese as a replacement for public transport. Therefore it can be expected that there is a big market of suppliers in China that hold much e-bike knowledge and production, which can reach local retailers through Pedaling Forward.

[12] Yi-Ching Chung, CEO of Point Asia

## 5.4 Retailer's self-developed brands

A remarkable finding was the presence of self-developed brand bicycles at high-end independent bicycle dealers (IBD). The reason for their self-developed brand bicycles is the profit margin that can be earned on it (Marcel, 2013). The frame of these self-developed brand bicycles are imported from Asia, thus also manufactured (and painted) by an OEM/ODM factory. This finding strongly relates to Eckhardt (2009) that suggests that European manufacturers outsource their production to Asia and assemble it in Europe, however it was surprising that relatively small retailers were also involved in this type of business.

## 5.5 Correlations in quantitative data

The reference to correlation can be found in appendix 4. The following explain the reason for the correlations.

**Importing influences retailers' opinion about Asian branded components.**

Several retailers have indicated in the qualitative interviews that they do not doubt the quality of the products from the Asia region (chapter 4.3.2). However their concerns were always directed towards the custom duties and communication with these Asian suppliers (chapter 4.3.1). These concerns can influence their opinion about Asian brands, hence correlation (1). Correlation (11) shows that their opinion about Asian branded components is primarily influenced. Correlation (11) together with correlation (2) indicate that retailers experienced with importing are primarily interested in selling Asian branded components. Also correlation (4) together with (14) suggest that these importing retailers are high-end retailers, thus high-end retailers are more interested in selling components they import from Asia. The negative correlation (15) reinforces that retailers in the high-end segment are more interested in selling components and not whole bikes.

**Retailers combine imported components with (self-developed brand) whole bikes.**

The focus on components is interesting, since previous findings in chapter 4.3.4 suggest that there is a low profit margin in this segment and it is heavily competed by e-tailors. An explanation can be that high-end retailers also have a higher level of customization that these retailers can offer their customers, such as Bike Passion that fully customizes a bicycle. Since a whole bikes' brand is decided by the frame, they are more likely to sell a recognized branded or self-branded frames and complete it with unknown brands or Asian brand components. This would also explain the negative correlation (9), if consumers are brand oriented it is less interesting to sell the components separate from the whole bike. Correlation (10) therefore indicates It is more interesting to sell whole bikes to brand oriented consumers. Selling self-developed branded whole bikes is more interesting for retailers, because it has higher profit margins (chapter 4.2.2). These self-developed branded frames are in most cases manufactured in- and imported from Asia, which can explain the positive correlation (3) that indicates that retailers interested in selling whole bikes are also more experienced in importing. That being the case, the latter correlation is not reinforced by other correlations. Thus it does not automatically mean that retailers interested in selling whole bikes are also experienced in importing. Correlation (13) shows there is a balance between retailers' choice of focusing on either selling wholes bikes or components, but the majority has a focus on wholes bikes (chapter 4.4.3).

**Components segment is a competitive market that requires quick lead times.**

Correlation (5) shows the importance of both lead time and after sale that retailers expect from their (import) suppliers. As described before by Pilot Cycles and Meijer & Van der Ham (2011) emphasis on quick delivery times, so they can work with smaller inventory. They have smaller inventory to reduce cost and compete with lower profit margins against the competitive e-tailors, thereby relying more on the suppliers lead time. Correlation (6) therefore shows that lead time is related to the competitive consumer prices. Also it is not surprising to see correlation (7) that components are also related to lead time. As indicated in chapter 4.3.3, this segment is very price competitive. Therefore correlation (12) also shows the lower interest for retailers to sell components if consumers are price oriented. These consumers will turn towards e-tailors to buy components if the prices are too competitive.

**After sale importance does not follow lead time.**

Interestingly, correlation (8) shows that after sale is less important if there is more interest in selling components. Thus if lead time is important it does not automatically mean that after sale is also important. This might be a result of retailers that import components from Asia but seek the most profitable option and have no expectations from the supplier afterwards, because of the competitive component market.

**The Dutch target market**

Concluding that Pedaling Forward's target market, high-end bicycle retailers, in the Netherlands are mainly interested in selling Asian branded components, but not whole bikes. They have experience in importing and in most cases own self-developed branded bicycle of which they import the frame from Asia. Lead time does still play a factor for these retailers, especially if they sell components separately, but are more flexible in lead times and find that after sale is not of same importance. They are confident in selling unknown brands, but hold low inventory and brand count. Thus are selective in their brand selection.

## 5.6 Business model canvas to be

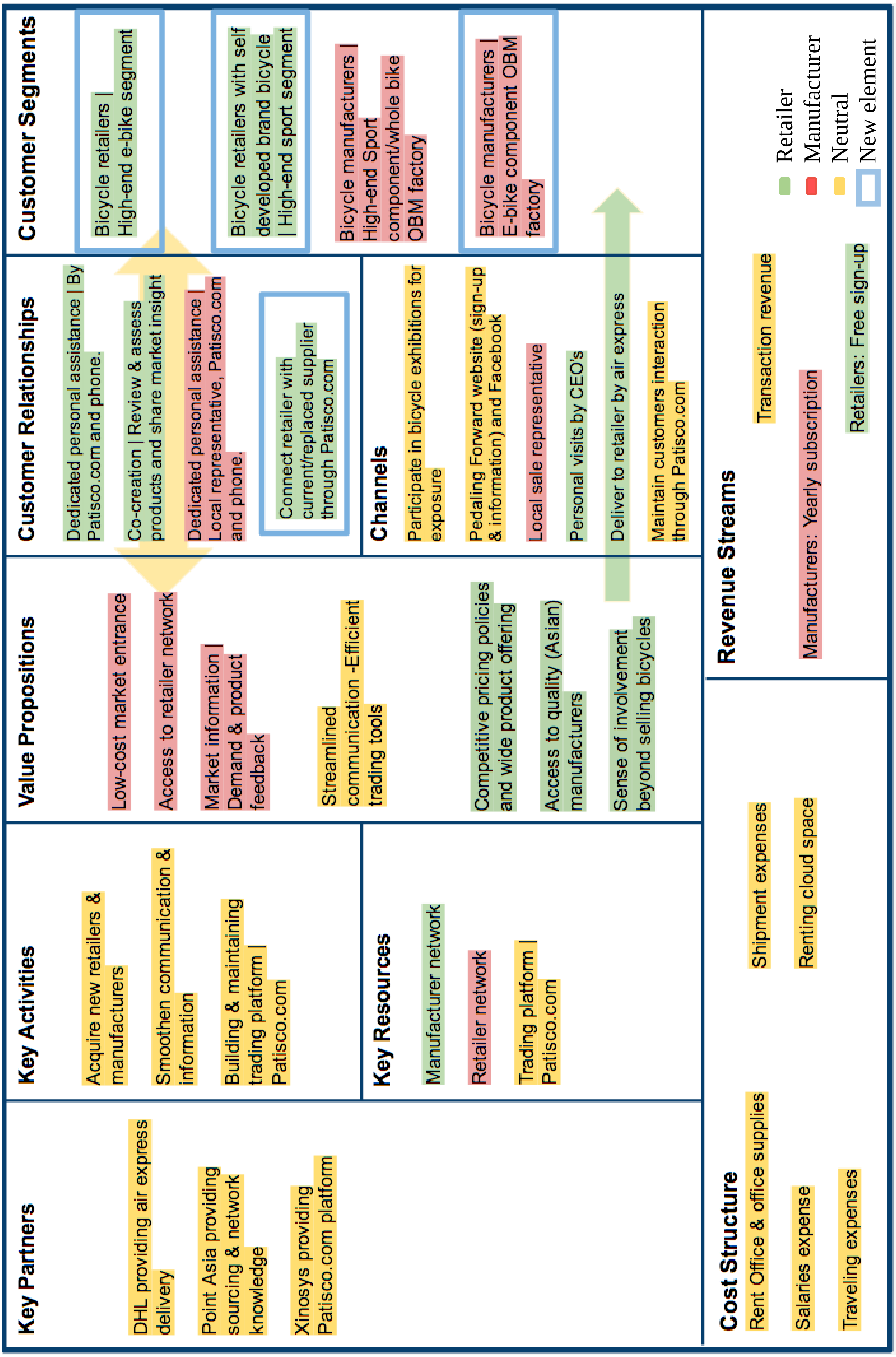
Based on the previous discussion points, a new business model canvas can be recommended for Pedaling Forward to enter the Dutch bicycle market. The following suggestions can be concluded: (1) High-end retailers with self-developed brand bicycles are more susceptible to Pedaling Forward, (2) Electric bicycles (e-bike) is an important market to get involved in and (3) reach the target market through the retailer's Asian supplier(s). Considering these points, the business model canvas described in chapter 4.1 can be adjusted. The result is shown in figure 8.

(1) By targeting only the high-end retailers that also have their self-developed brand, Pedaling Forward can more effectively focus and investment in the right retailer. They are more susceptible to Asian suppliers and can deal with the beginning barriers of Pedaling Forward. Because they are more confident in being able to sell unknown brands and are more flexible towards the longer lead times. Also their previous/current experience with Asian suppliers will benefit a trustworthy business relationship. This is reflected in the customer segment of the model.

(2) Pedaling Forward has to play a role in the electric bicycle (e-bike) market. Therefore it has to find manufacturers that can deliver components for e-bikes. Whole bikes are not interesting for the retailers to import. The e-bike components will reach larger market than the high-end bicycle retailers. This is reflected in the customer segment of the model.

(3) When looking at high-end retailers with a self-developed brand bicycles, they import their frames from Asia. By targeting their current Asian supplier to join Pedaling Forward or by replacing it with a more beneficial supplier, the retailer will automatically convert to the Patisco.com system to place new orders. Only retailers already in the program can be targeted by this method, therefore it is reflected in the customer relationship segment of the model.

Figure 8: Business mode canvas — to be



# 6. Recommendation

The budget limitation and integrity concerns restrict traditional methods of market entrance. It relies on the business trips, exhibitions and social/online media while assuming that retailers worldwide have the same characteristics and problems. Therefore the report focused on the approach of Pedaling Forward towards the Dutch bicycle industry that fits within their current working methods, goals and financial limitations. The main question "*How is it feasible for Point Asia and Xinosys to introduce Pedaling Forward in the Dutch bicycle market?"* is answered by three different approaches that can be implemented separately or simultaneously.

### Quick entrance is not an option

There are two major barriers withholding Pedaling Forward from a quick entrance in the Netherlands. First the general opinion of retailers is that Asian brands are unreliable; this mainly focusses on the fear of importing and difficulty communicating with these suppliers. Second, retailers have higher demands and expect quicker lead times from their (import) suppliers. Additionally Pedaling Forward contains rather unknown brands that still require an introduction. Therefore it cannot be expected that general IBDs will smoothly transfer to Pedaling Forward.

Even so, the market does have room for Pedaling Forward. The market transparency has educated both retailers and consumers about the origins of bicycle products. Retailers have already experienced contacting Asian suppliers but are in need of a reliable source. Furthermore the old method of distribution in the Netherlands is still stimulating the oversupply in the industry and in turn bad market feedback.

Competitors such as Alibaba.com do not pose a major threat. They are not focused on the same market and put an emphasis on an open buyer/seller market. The Accel-Group NV however can pose a future threat. It is not in its interest for their clients (including retailers) to get in connection with its (Asian) suppliers. As a public company with major investments in Europe, this company can pose a threat.

### Approach 1: target retailers with self-developed brands

Pedaling Forward's target market can be further niched into high-end retailers that also have self-developed branded bicycles. These retailers are active in selling bicycle components through customized whole bikes and self-developed brands. They are already experienced in importing frames from Asia due to their self-developed brand. Even though lead time is important, they are more flexible with it than other retailers. Moreover they are more acceptant towards Asian brands, thus more susceptible to Pedaling Forward's brands.

During business trips, exhibitions and follow-up contact Pedaling Forward can be more selective in its focus. By investing more resources in these type of retailers there will be a higher rate of retention.

Emphasis has to be put on selling components and investigate how Pedaling Forward's brands can complete their customized or self-developed branded bicycles. To further increase the retention it is recommended to stimulate follow-up orders. By lowering the minimum ordering price for follow-up orders, so that retailers can place smaller follow-up orders to accommodate their low inventory. This will also give the retailer more time to test and trust the products before investing in more inventory.

Pedaling Forward can lower the minimum order price to €100 without any additional cost for the next 2 follow-up orders after the first €500 or more order. Totaling a (figurative) cost of €100 per retailer. Currently there are no retailers in the Netherlands, but this approach is only needed to convince early adopters, so that others can follow. Thus by limiting this to 50 retailers, the cost will not exceed €5000.

#### Approach 2: Include e-bike components in product offering

E-bikes is a growing market, has much potential and still has good profit margins. On top of that a larger market segment is interested in e-bikes, not only high-end retailers. The higher profit margin can cover the costly transport. However, importing whole e-bikes is not interesting for retailers; rather components, since the e-bike requires more service and maintenance, thus replacement parts.

Pedaling Forward can actively seek Taiwanese or Chinese suppliers that have specific components for e-bikes. Especially in China suppliers will most likely have more experience in this sector. When this is included in the product offering, they can start attracting a larger target group that includes their previous target group. Only lead time and after sale has to be considered, because of the high maintenance and complexity of these products. Therefore a similar tactic can be used as explained in approach 1, by lowering the minimum order price for follow-up orders. Furthermore Pedaling Forward can offer flexible warranty policies that can be easily requested through the suppliers, for quick delivery of replacement parts.

The follow-orders will bear a cost of €5000 (see approach 1) and the warranty claims are at cost of the supplier. It might be more difficult to find the Chinese suppliers compared to the existing Taiwanese suppliers.

#### Approach 3: Reach retailers through their Asian supplier

The retailers described in the first approach, are already dealing with suppliers in Asia for either components or self-developed brand bicycle. By focusing on the retailer's Asian supplier to join Pedaling Forward, this can result in a down trickling effect to the retailer. Whereby the supplier suggests the retailers to start placing orders through Patisco.com. The retailer will be inclined to use the system, in which he will automatically be introduced to other suppliers and brands. The retailer will not easily switch from supplier, because the switching barrier is rather high. The barrier is high, because it will cost the retailer a lot of time to establish a new reliable relationship. The supplier will be acceptant towards Pedaling Forward, since they will get in contact with a larger market and be able to promote their own brand. Also Pedaling Forward is more in touch with Asian suppliers due to past experience and its geographical location.

Alternatively if the supplier is unwilling to join Pedaling Forward, it can find another supplier that can persuade the retailer to switch to another supplier that is already part of Pedaling Forward and can produce a similar product for the retailer. Thanks to Pedaling Forward's business experience and connections, they have more bargaining power than a sole retailer. Therefore it is more likely that the replacement supplier will have more benefits than the retailer's previous supplier.

This approach is closely related to the first approach, considering that only this target group is sensitive to this approach. Moreover, finding the retailer's supplier can prove difficult, depending on the retailer. It is recommended to focus on existing retailers and newly acquired retailers described in approach 1. Other than that there are no additional financial consequences.

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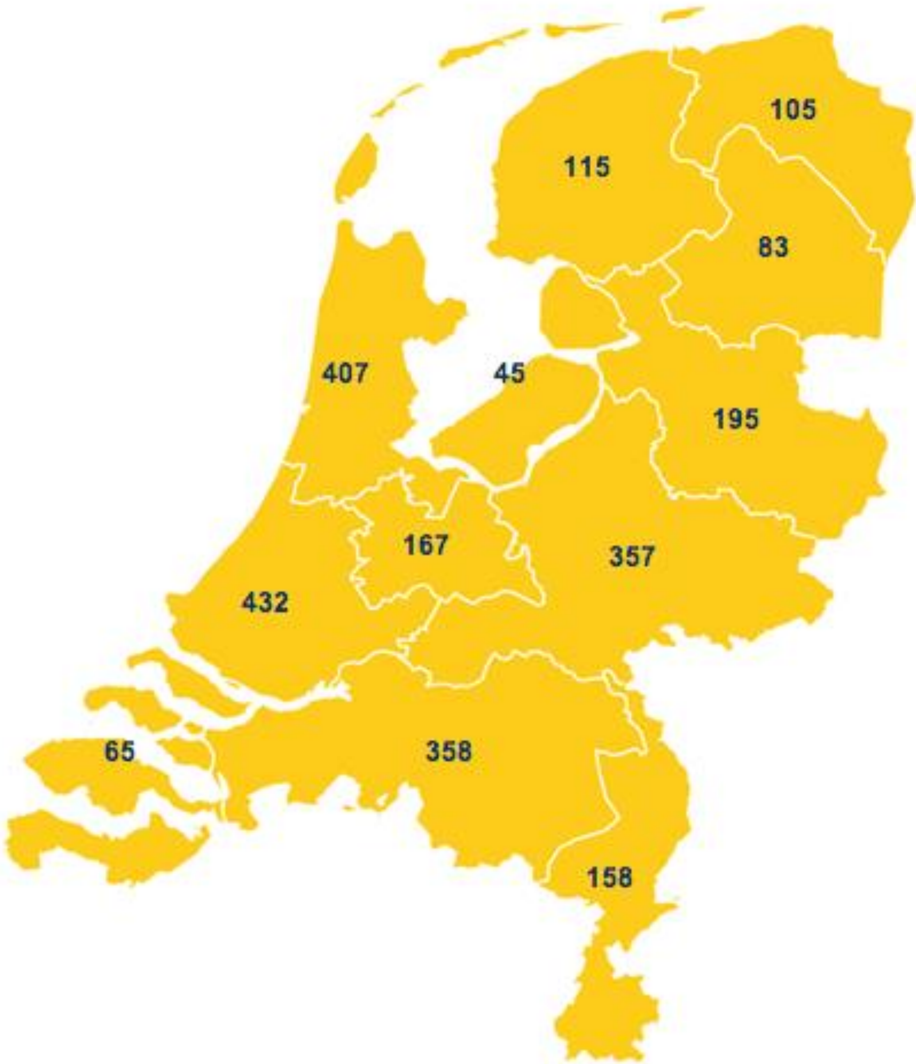
# Appendix 1: Bicycle Retailers in Netherlands

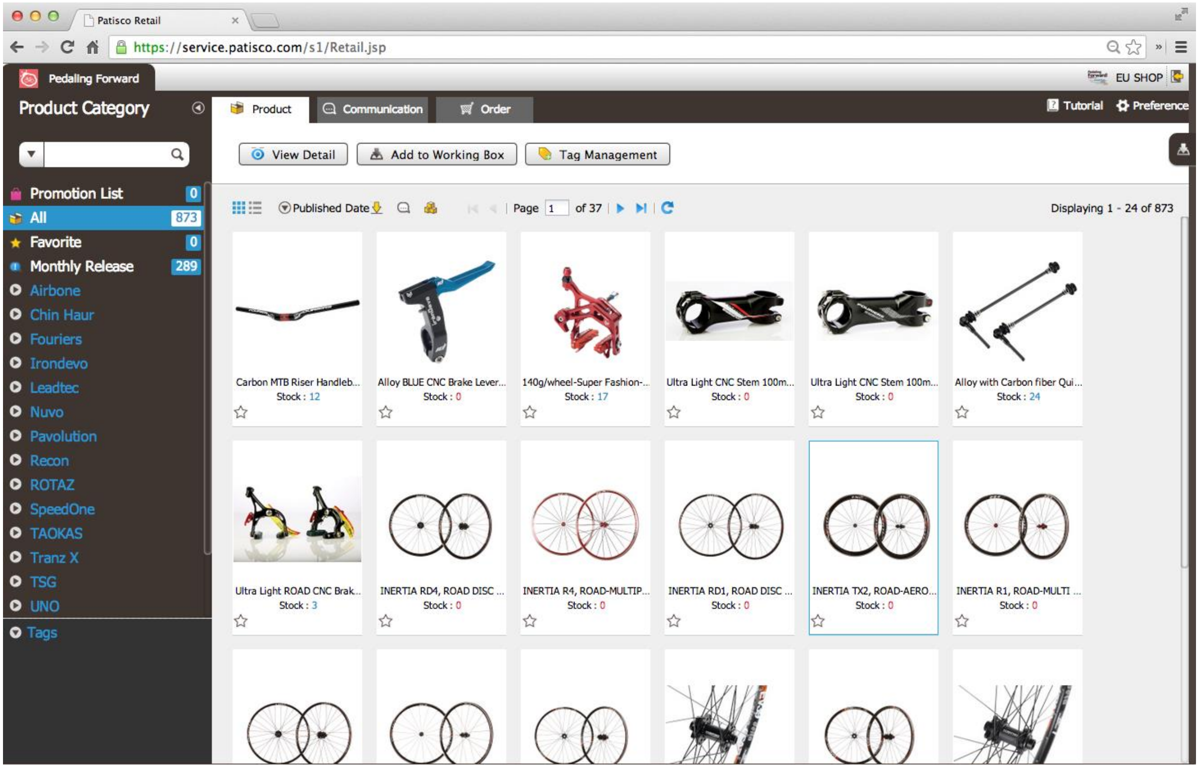
Figure 9: Geographical lay-out of all bicycle retailers in the Netherlands




Source: Kamer van Koophandel, 2013

# Appendix 2: Interface Sample

Figure 10: Snapshot of Patisco.com retail interface




Source: Xinosys Co. Ltd. from Patisco.com

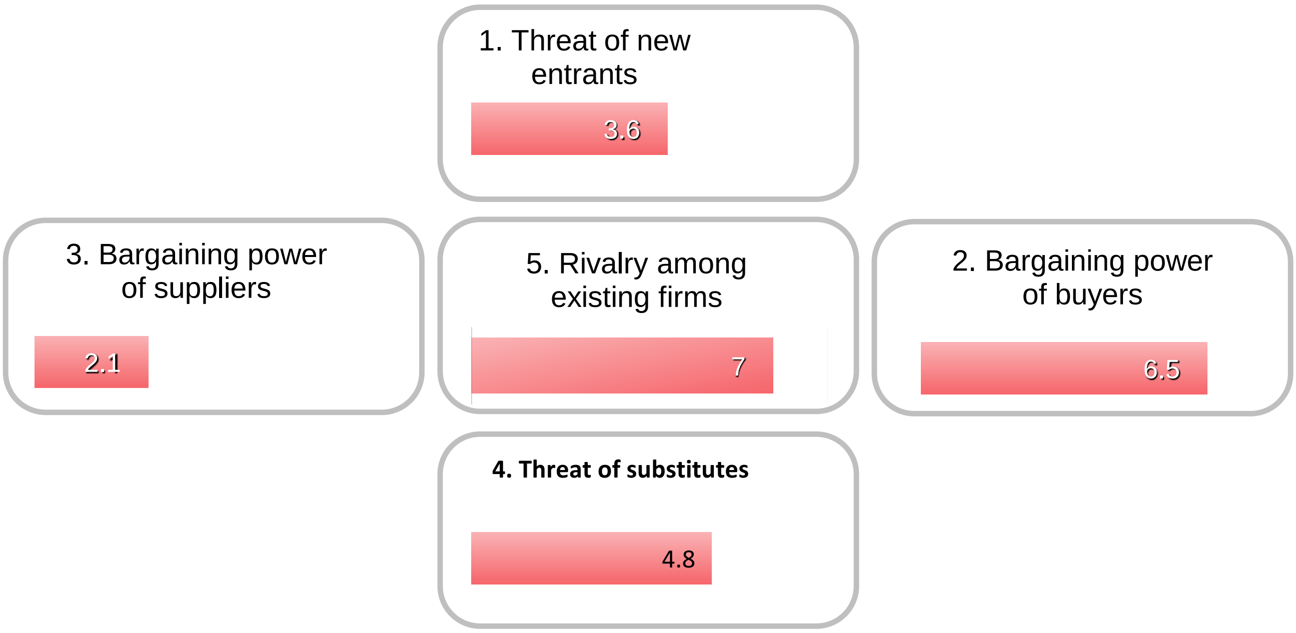
# Appendix 3: Porter's 5 forces model

Table 4: Porter's 5 forces factors

| | |
|---|---|
| **Threat of new entrance** | |
| Are economies of scale not important in this market? | Not really |
| Do you need a low budget of capital for entering this market? | Not really |
| Do you expect less reaction of existing competitors? | Not really |
| Are the existing distribution channels available for entrants? | To a certain extent |
| Do the entrants have access to existing and/or new technologies? | Definitely |
| Are buyers (traders/users) not loyal to (existing) brands? | Not really |
| Do the entrants also have access to financial (governmental) support? | Not really |
| Are the switching barriers (for changing to other suppliers) low? | To a certain extent |
| **Bargaining power of buyers** | |
| Is the one or a few buyers (groups) in the market? | Not at all |
| Are the existing products homogeneous? | To a certain extent |
| Do the traders have low margins in this market? | To a certain extent |
| Is quality not an important issue in the buying process? | Neutral |
| Do the buyers have information available about suppliers, products and market? | Definitely |
| Is vertical integration an issue for the buyers in this industry? | To a certain extent |
| Do the buyers have own labels/brands available and do the buyers have access to (international) production sources? | Definitely |
| Is the competition high between the traders ? | Definitely |
| **Bargaining power of suppliers** | |
| Is the one or a few suppliers in the market? | Not at all |
| Is the brand of the supplier a so-called A-brand in the market? | No opinion |
| Is the production capacity of suppliers fully used? | Neutral |
| Do the suppliers deliver a high contribution to quality, innovation and processing of products /services in the market? | Not really |
| Are the suppliers gross profit margins low in the market? | To a certain extent |
| Is the government also a supplier? | Not at all |
| Do the suppliers have much knowledge about market aspects | Neutral |
| Are the supplier products so-called strategic products? | Not really |
| **Threat of substitutes** | |

| | |
|---|---|
| Are the substitutes better/more functions than from existing products/services? | Neutral |
| Is the price/quality of the substitutes better than from existing products? | Neutral |
| Are the substitutes profitable and is the marketing & sales approach aggressive? | Not really |
| Coming more acceptable alternatives and imitations on the market? | To a certain extent |
| Coming more acceptable alternative technologies, designs and materials in the market? | No opinion |
| Are the alternative distribution channels used e.g. internet? | To a certain extent |
| Is the product life cycle short or become shorter and is the share of new products high? | Definitely |
| **Rivalry among existing firms** | Neutral |
| Is the market growth low or negative? | Definitely |
| Have the products/services homogeneous characteristics and less complementary products are offered? | Definitely |
| Are the many organizations with comparable market positions? | Definitely |
| Are the exit barriers high? | Neutral |
| No strategic networks (co-operations) between "competitors" are observed? | To a certain extent |
| Is the market already international oriented, so new entrants coming from abroad are known? | Neutral |
| The flow of cheaper alternatives and imitates are increasing? | Neutral |
| Are the competitors volume-oriented and less profit margin oriented? | To a certain extent |

Figure 11: Porter's 5 forces model



# Appendix 4: Spearman's correlation results

**Import from Asia**

I. Customers & shipment (C&S) – How experienced is the retailer in dealing with custom duties and shipment from Asia. Unexperienced is 1 and very experienced is 5. If the topic is was not applicable, then it was also rated with 1.

II. Lead time – When importing from Asia, to what extent is the lead time an important factor. Unimportant is and very important is 5. If the topic was not applicable, then it was also rated with 1.

III. After sale – When importing from Asia, how important are the after sale services (including guarantee, product questions and problems). Unimportant is 1 and very important is 5. If the topic was not applicable, then it was also rated with 1.

**Brand recognition**

I. Brand focus of customers (Brand cons.) – How important is a brand for customers of their shop. Unimportant is 1 and very important is 5.

II. Brand value for retailers (Brand retail.) – How important is the brand's trust for the retailer. Unimportant is 1 and very important is 5.

III. Asian brand reliability (Brand Asian) – To what extent does the retailer value Asian brands. Very bad value is 1 and very good value is 5.

**Pricing policies**

I. Purchasing price orientation (Purch. price) – How important are purchasing prices in comparison to other benefits. Unimportant is 1 and very important is 5.

II. Consumer price orientation (Cons. price) – To what extent does the retailer believe that competitive pricing is important for the consumer buying decision. Unimportant is 1 and very important is 5.

III. E-commerce competitiveness (Ecommerce) – To what level does the retailer feel threatened by the e-tailors in their industry. Not threatened is 1 and very threatened is 5.

**Product offering**

I. Components – To what degree the retailer is interested in selling components. Very low degree is 1 and very high degree is 5.

II. Whole bikes – To what degree is the retailer interested in selling whole bikes. Very low degree is 1 and very high degree is 5.

III. Segment focus – From a price perspective does the retailer sell low-, mid- or high end products. Very low degree is 1 and very high degree is 5.

Table 5: Ordinal scale results

| | C&S | Lead time | After sale | Brand cons. | Brand retail. | Brand Asian | Purch. price | Cons. price | E-commerce | components | whole bikes | Segment |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **KeesNoorloos** | **4** | **2** | **3** | **2** | **1** | **3** | **5** | **5** | **5** | **2** | **4** | **3** |
| **DeBeente** | 1 | 4 | 5 | 3 | 4 | 2 | 4 | 5 | 4 | 1 | 3 | 2 |
| **All iZi** | 2 | 3 | 3 | 3 | 2 | 4 | 4 | 5 | 5 | 4 | 2 | 4 |
| **vanHerwerden** | 5 | 2 | 3 | 4 | 2 | 5 | 4 | 3 | 2 | 3 | 4 | 4 |
| **Hans Struijk Fietsen** | 1 | 4 | 4 | 5 | 4 | 2 | 4 | 5 | 5 | 1 | 5 | 3 |
| **Bikebest** | 2 | 4 | 5 | 4 | 4 | 3 | 5 | 4 | 4 | 2 | 4 | 3 |
| **Krommespaak** | 1 | 4 | 4 | 4 | 3 | 2 | 5 | 4 | 5 | 1 | 5 | 2 |
| **Fiets-inn** | 2 | 4 | 4 | 5 | 5 | 3 | 5 | 5 | 5 | 1 | 5 | 1 |
| **Cycletrend** | 4 | 4 | 3 | 2 | 4 | 4 | 4 | 3 | 4 | 3 | 3 | 4 |
| **Fallon Bicycle** | 4 | 3 | 4 | 2 | 4 | 2 | 4 | 3 | 3 | 5 | 1 | 5 |
| **Endura Sport** | 2 | 4 | 5 | 4 | 5 | 3 | 4 | 5 | 5 | 2 | 4 | 4 |
| **Xyxletracx** | 1 | 4 | 4 | 3 | 4 | 3 | 5 | 4 | 4 | 2 | 3 | 3 |
| **BikeShop** | 2 | 5 | 5 | 4 | 4 | 3 | 5 | 5 | 3 | 1 | 4 | 3 |
| **Bemelman Bike Sport** | 1 | 2 | 3 | 4 | 3 | 4 | 3 | 3 | 2 | 3 | 5 | 4 |
| **Rob's Bikecenter** | 2 | 4 | 4 | 4 | 4 | 2 | 4 | 5 | 4 | 2 | 4 | 3 |
| **BCE Bikes** | 1 | 5 | 4 | 4 | 4 | 2 | 4 | 5 | 4 | 1 | 5 | 2 |
| **Jonico** | 1 | 5 | 5 | 4 | 2 | 3 | 5 | 5 | 5 | 1 | 5 | 1 |
| **Janvanwijk Fietsen** | 1 | 4 | 5 | 5 | 4 | 2 | 5 | 4 | 5 | 1 | 4 | 1 |
| **Bike Best** | 2 | 5 | 4 | 5 | 4 | 2 | 4 | 5 | 5 | 1 | 4 | 3 |
| **Singlespeed** | 4 | 3 | 3 | 3 | 2 | 3 | 4 | 4 | 3 | 4 | 2 | 4 |
| **Stegink Tweewielers** | 1 | 4 | 4 | 3 | 5 | 2 | 5 | 5 | 4 | 1 | 5 | 2 |
| **Bike PLanet** | 3 | 3 | 4 | 4 | 5 | 3 | 5 | 3 | 4 | 2 | 3 | 4 |
| **Fietswereld Hans Greefhorst** | 1 | 4 | 4 | 5 | 4 | 2 | 5 | 3 | 4 | 1 | 4 | 2 |
| **Banierhuis** | 2 | 5 | 5 | 5 | 4 | 3 | 4 | 5 | 4 | 1 | 5 | 3 |
| **Rijwielhandel van Hoeijen** | 1 | 4 | 4 | 5 | 3 | 2 | 5 | 4 | 4 | 1 | 5 | 2 |
| **Beekhoven Bikes** | 2 | 3 | 4 | 5 | 5 | 4 | 4 | 5 | 3 | 1 | 4 | 1 |
| **Jansencronje** | 1 | 4 | 4 | 3 | 3 | 3 | 4 | 4 | 4 | 2 | 4 | 1 |
| **Dirk Visbeek** | 1 | 3 | 2 | 3 | 3 | 1 | 5 | 5 | 5 | 1 | 5 | 2 |
| **Kivada** | 3 | 3 | 3 | 3 | 2 | 4 | 4 | 3 | 4 | 3 | 3 | 4 |
| **Mean** | **2** | **4** | **4** | **4** | **4** | **3** | **4** | **4** | **4** | **2** | **4** | **3** |

Table 6: Spearman's correlation of 12 interview topics

| | Import from Asia | | | Brand Recognition | | | Pricing Policies | | | Product Offering | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | C&S | Lead time | After sale | Brand cons. | Brand retail. | Brand Asian | Purch. price | Cons. price | E-commerce | components | whole bikes | Segment |
| C&S | 1 | -0,355 | -0,257 | -0,213 | 0,016 | ,531** | -0,327 | -0,291 | -0,368 | ,622** | -,586** | ,674** |
| Lead time | | 1 | ,678** | 0,339 | 0,264 | -0,371 | 0,271 | ,512** | ,378* | -,631** | ,377* | -,446* |
| After sale | | | 1 | ,390* | ,454* | -0,253 | 0,315 | ,377* | 0,200 | -,500** | 0,166 | -,381* |
| Brand cons. | | | | 1 | 0,287 | -0,149 | 0,180 | 0,243 | 0,222 | -,614** | ,537** | -,408* |
| Brand retail. | | | | | 1 | -0,200 | 0,178 | 0,273 | 0,065 | -0,345 | 0,058 | -0,160 |
| Brand Asian | | | | | | 1 | -0,351 | -0,295 | -,385* | ,557** | -0,315 | ,387* |
| Purch. price | | | | | | | 1 | 0,025 | 0,328 | -,478* | 0,245 | -,468* |
| Cons. price | | | | | | | | 1 | ,451* | -,567** | ,387* | -,428* |
| Ecommerce | | | | | | | | | 1 | -,411* | 0,292 | -0,354 |
| components | | | | | | | | | | 1 | -,677** | ,789** |
| whole bikes | | | | | | | | | | | 1 | -,549** |
| Segment | | | | | | | | | | | | 1 |

** Strong correlation

*Medium correlation

The correlations:

1. Customs & shipment / Asian brand: 0,531 – The positive correlation indicates that when the retailer's customs & shipments experience increases/decreases also the valuation of Asian brands increases/decreases. Thus the experience with customs & shipment of retailers influences their opinion about Asian brands and vice versa.
2. Customs & shipment / Components: 0,622 – The positive correlation indicates that when retailer's customs & shipments experience increases/decreases also the degree of interest for selling components increases/decreases. Thus the retailers with more experience in customs & shipment are more interested in selling components and vice versa.
3. Customs & shipment / Whole bike: 0,586 – The positive correlation indicates that when retailer's customs & shipments experience increases/decreases also the degree of interest for selling whole

bikes increases/decreases. Thus the retailers with more experience in customs & shipment are more interest in selling whole bikes and vice versa.

4. Customs & shipment / Segment focus: 0,674 – The positive correlation indicates that when retailer's customs & shipments experience increases/decreases also their focus on selling higher-end products increases/decreases. Thus the retailers with more experience in customs & shipment are more likely to sell high-end products and vice versa.
5. Lead time / After sale: 0,678 – The positive correlation indicates that when lead time importance increases/decreases also the after sale importance increases/decreases. Thus when lead time is important to the retailer, he will most likely also find after sale important and vice versa.
6. Lead time / Cons. price: 0,512 – The positive correlation indicates that when the lead time importance increases/decreases also the consumer prices importance increases/decreases. Thus when lead time is very important then the retailer most likely believes that competitive consumer pricing is also very important and vice versa
7. Lead time / Components: 0,632 – The positive correlation indicates that when the lead time importance increases/decreases also the degree of interest for selling components increases/decreases. When lead time is very important then the retailer most likely also focuses on selling components and vice versa.
8. After sale / Components: -0,500 – The negative correlation indicates that when after sale importance increases/decreases, the interest of selling components increases/decreases the opposite way. Thus when after sale is important for the retailer then the interest of selling components is less interesting.
9. Brand cons. / Components: -0,614 – The negative correlation indicates that when consumer brand importance increases/decreases, the interest of selling components increases/decreases the opposite way. Thus when a brand is important for the customers of a retailer, then the interest of selling components is less interesting
10. Brand cons. / Whole bike: 0,537 – The positive correlation indicates that when consumer brand importance increases/decreases also the interest of selling whole bikes increases/decreases. Thus when a brand is important for the customers of a retailer, then the interest of selling whole bikes is likely more interesting.
11. Brand Asian / Components: 0,557 – The positive correlation indicates that when retailers' degree of value for Asian brands increases/decreases also the interest of selling components increases/decreases. Thus retailers that perceive Asian brands as good value will also most likely be more interested in selling components.
12. Cons. price / Components: -0,567 – The negative correlation indicates that when retailer's importance for competitive consumer prices increases/decreases, then the interest of selling components increases/decreases oppositely. Thus retailers that believe that competitive pricing is

important for the buying decision of the consumer will most likely not be interested in selling components.

13. Components / Whole bikes -0,677 – The negative correlation indicates that when retailer's interest in selling components increases/decreases, then the interest is selling whole bikes increases/decreases oppositely. Thus retailers that are very interested in selling components are most likely less interest in selling whole bikes.
14. Components / Segment focus: 0,789 – The positive correlation indicates that when retailer's interest in selling components increases/decreases also their product offering is of higher/lower-end. Thus retailers that are very interested in selling components also sell high-end products.
15. Whole bike / Segment focus: -0,549 – The negative correlation indicates that when retailer's interest in selling whole bikes increases/decreases, then their degree of high-end product offering increases/decreases opposite.

# Appendix 5: External interview summary

The external interviews with 10 Dutch independent bicycle dealers were open discussions, semi-structured by a sales pitch of 6 topics:

1. OBM factories from Taiwan
2. Factories that also produce for other popular brands
3. High quality, High-end bicycles
4. Wide product offering
5. Shipped straight from the factory within 2 weeks
6. Competitive prices

**1. Gerlof, Salomo Bikes. 20 May 2013.**

Salomo Bikes, a new small shop located near the beach, had recently started importing from Taiwan. His driver to import was the fact that most specialty parts were not available through his regular distributors and his aspiration to develop his own custom brand. Gerlof (owner of Salomo Bikes) mentioned: *"I am trying to setup my own brand, because there is an untapped niche market in this local area that need more sturdy sport bicycles".* But he finds it difficult to find the right connection, because he is afraid to get duped by a foreign supplier with inferior quality and dubious factory warranty. Gerlof mentions: *"It's not rocket science to find suppliers in Taiwan or China, but trusting their promises is. I have no guarantee that these people will do anything for me after a sale or if they will even deliver".* A close friend of Gerlof once imported a batch of city bicycle frames from China, but in the end he received an empty container after having paid the full amount.

Salomo Bikes holds a low inventory and relies on his suppliers to deliver within a short time frame. He is therefore very selective about his suppliers and cannot offer a full range of brands. According to Gerlof, brands were less important than his service. He said: *"People here don't pay too much attention to the brand, but rather the price and whatever else I can offer them. I have had brands come and go".* He also mentioned that the brands he carried in the shop were also dependent on its availability online. He said: *"Often I see the same brand products I have in my shop for a lower price on the internet. It really gets to me, because I then solely rely on slashing prices and offering more service".* The shop tries to offer components and whole bikes, but Salomo mentions: *"I rather focus on my own custom built bicycles or high-end whole bikes, because you can get all the components cheaply off the internet".*

***2.* Joris & Pieter, Pilot Cycles. 21 May 2013.**

Pilot Cycles is a high-end titanium frame assembler brand. They focus on selling their frame which they customize with different parts for each individual customer. With hopes to become a future distributor, and already some experience in distributing their own bicycles brand. They are experienced in importing from China, where they let an OEM factory build their frames. Joris (Co-owner of Pilot Cycles) mentioned: *“We’ve found many suppliers in China and Taiwan, but in China we got the best deal”.* They experienced relatively short and reliable delivery times from their supplier. Further into the topic Pieter (Co-owner of Pilot Cycles) mentioned: *“We had problems with factory warranties and delivery at first, but once you get through that communication barrier everything goes smoother”.* In their experience brands from Asia in general were not always sold easily. Joris, also previous owner of a bicycle retail shop, said: *“Customers here are pretty fixated on the brand, they read things in magazines and create a tunnel vision for what is praised in there (…) We actively seek publicity from a couple of magazines to get our brand out there (…) I believe it also helps that we’re locals with experience”.* According to Pilot Cycles customers in most cases have a sense of where everything comes from and are not shy to import things themselves, but when they have to make a buying decision in a store they still rely on the brand.

During the interview, Pilot Cycles started to look into distribution options for brands from Pedaling Forward. Pieter mentioned: *“For us the biggest challenge is to stand out from other distributors. That is why we are constantly looking for innovative brands or popular brands that we can sell exclusively”.* They believed they were able to sell one of the brands offered but mentioned that the lead times were too long. Joris stated: *“Retailers these days expect delivery within 48 hours and don’t want to be bothered too much with the ordering process”.* Pilot Cycles didn’t have the capital for a large order. Joris added to his previous sentence: *“To meet such expectations we need enough starting inventory and an adequate warehouse, both of which are costly”.* Pilot Cycle informed that there is one major German e-tailor where everybody gets their components from. Pieter mentioned *“These e-tailors are cutting deeper into this business on a daily basis, that’s why we decided to start our own brand”.*

### 3. John, vanHerwerden. 22 May 2013.

vanHerwerden, a large family owned shop near an urban area, has established itself for a long time. It’s a popular shop in its local market and is said to be very busy every day. The owner of the shop is an older man and father of four sons who all work in the shop. John (owner of vanHerwerden) said: *“My sons play an important role in this shop and are active sport cyclers”.* The focus of the shop is to sell high-end sport bicycles, either customized or from the shelf. John mentioned: *“We are the experts in the field and come with the best solution within the customer's budget”.* When confronted with Pedaling Forward, John says that he is familiar with Taiwan brands and producers. He mentions: *“I regularly import from Taiwan with good experience, they make great stuff over there”.* On another note he says: *“Only thing is that I never rely on the delivery times. It can take up to months, depending on supplier and customs”.* Afterwards he showed a set of carbon wheel sets he imported a week before. He stated: *“The brand of these wheel sets are not popular in Holland, but I know they are reliable and made of good quality and my customers knows I’m good”.* He also showed a custom built bicycle with their shop brand on it and said: *“All imported parts from Taiwan, but only the frame is originally from an old Dutch factory, hand built”.*

He further discussed his shop and showed that he mainly sells two A-brands, Cannondale and Specialized. John mentions *“These brands make good things and my customers are familiar with them. Since I’ve been in the business so long I’m able to get them for good prices”.* vanHerweden only bothers to import specific components and parts for their high-end bicycles. He stated: *“Importing whole bikes is just too expensive, so we mainly import components and sometimes accessories”.* When the topic switched to the prices of Pedaling Forward, he mentioned: *“Sometimes I fully service a customer and recommend him one of my A-brand bicycles. Then he tells me he has to think about it, but in the end I never see him back until a couple months later. He walks back in with the same bicycle I recommended and asks my help to repair some problem."* According to John, these kind of customers make pictures and get professional advice in the shops, so they can afterwards purchase it online for a lower price. The drawback however is that these customers never realize that they can earn the price difference back in the service that the shop offers.

### 4. Jurrian, Bike Passion. 22 May 2013.

Bike Passion is a store located far from the city area, next to a gas station. They store many high-end bicycles and are only open on appointments and short daytimes to showcase its inventory. Jurian (Owner of Bike Passion) says: *“There is no point for me to be open the whole day for my location (…) I narrow down my sales to high-end sport bicycles and handle individual customer cases”.* He reasoned it as the new way bicycle stores will work, it’s all about the service. His past experience with bicycle distributors, left him with good suppliers. He mentions: *“I built trust and respect with these suppliers, I can rely on their delivery and prices”.* That being the case he knew from past experience that everything comes from either China or Taiwan. But he never imports unless a customer specifically requests it. He mentioned: *“I rather work with the people I know and trust, they are also integrated in my shop’s inventory system, so it’s easy to manage for me”.* His method of working leaned to convenience.

### 5. Kees, Good Bikes. 23 May 2013

Good Bikes is an average retail shop nearby the city center. It focuses on mid-range city bikes and high-end sport bicycles. They are familiar with goods from Taiwan. Kees (owner of Good Bikes) mentioned: *“Google is our biggest friends, we can retrace every product”.* They would regularly backtrace products for customers that had imported or bought exotic components that needed repairs. Kees noted: *“Sadly enough for customers that import foreign brands, they only realize after it breaks that they can hardly rely on its guarantee”.* Kees is wary of the service that comes from overseas factories and prefers to stick with distributors in his local market. Even so, he acknowledges that many of the brands he sells are produced in Asia. He added: *“It’s not the quality I worry about with Taiwan brands, but rather the company behind it. Often they are agencies out for the quick buck”.* He also mentions that these days he only has show-models in the store and only at the beginning of the season he has a small inventory, because they rely on quick delivery from suppliers afterwards. Kees said: *"We sell expensive bicycles and people are patient enough to wait for it a day or two, but not a week"*.

Good Bikes was neutral about the e-commerce scenery. Kees mentions: *"We do some online selling ourselves and have a tight customer circle (…) we created a 6th sense for e-shoppers, they only come to see the things".* Good Bikes has had to cut margins for certain brands and as a result removed them from their product offering. In the beginning they sold many different brands, over 40, but now they've narrowed it down to around 10. In Kees's opinion, focusing on core items with some margin and tight customer service is the way to go.

**6. Siebrand, the Cyclist. 22 May 2013.**

The Cyclist is a small shop that mainly relies on sales from its online shop. They have developed their own brand and focus on delivering honest exclusive items. Siebrand (owner of the Cyclist) summarizes his brand and shop by saying: *"My online shop and brand are actually a representation of myself (…) I sell myself, my enthusiasm and expertise in bicycles.".* He actively looks for components and frames from Taiwan and China, but explicitly mentions that communication is always a burden. He mentions: *"I love new things, but I don't love waiting for it. Every time I negotiate with these people and email them I have to wait about 3 months to get a reply (…) That's how it was with my current frame supplier.".* But he did not doubt the quality and items he imported. In most cases he could rely on factory guarantee, but it just took longer than with other suppliers. The Cyclist's own brand is focused on sport bicycles, specifically mountain bikes (MTB), and imports his frames from China. Siebrand mentioned that he was always afraid for customs when importing. He said: *"In one case I imported my frames as usual, but all of a sudden I received a huge bill from customs (…) apparently my supplier forgot to mention my VAT number on the order."*

Siebrand was quite outspoken about e-commerce, even though he managed an online shop himself. He mentioned that the major difference between other shops and his was that they relied on promotion prices, small margins and low cost operations. Siebrand considered his online shop as a portal to his customers and thereby involved himself with every sale.

**7. Michel, Bikelane. 23 May 2013.**

Bikelane, located in the center area of the city, is a shop that displays specifically one brand; Specialized. Bikelane only sells a couple of brands but is dominated by Specialized bicycles. Michel (owner of Bikelane) motivates this: *"Specialized is currently the only brand I have been able to trust with their pricing policies".* He also believes that customers are very brand focused and don't easily accept unknown brands. Tom (employee of Bikelane) adds: *"Customers in Holland are very keen on buying renowned brands (…) popularity of the brand really influences their buying decision".* They were surprised that Taiwan manufacturers produced components for Specialized, but did know that many components came from Asia. Michel mentioned that he earned most of his margin on selling accessories such as clothing and not the bicycles. He added: *“Online shops really destroyed the prices for bicycles. Sometimes I have to sell things for the same price I bought it for, because it’s available online for a major discount."* Furthermore he mentions that especially components are impossible to sell in his shop.

### 8. Martin, Bike Action. 23 May 2013.

Bike Action, an average sized shop with a large red wall that has the word “Specialized” in white on it, mainly displayed two major brands; Cannondale and Specialized. "Whole bicycles of the latest collection" was their sales pitch. Martin (owner of Bike Action) mentioned that he focused on selling branded bicycles, and at this moment the two brands he believed in were Cannondale and Specialized. He had visited a central meeting of Specialized in Germany once, he added: *“ Specialized ensured all its dealers that they were staying away from online shops and fought to protect their price policies at the cost of lost sales”.* This was important for Martin. Furthermore he mentioned that Specialized has a 190 day supplier credit line, which gave him more flexibility. The down side was that he had to buy a large quantity to receive this credit. Bike Action never imported products from overseas. Martin added: *“We don’t bother too much going through unreliable suppliers abroad and rather stick with what we have at hand”.* They believed that their local market was very brand focused, and were not looking to buy exotic brands.

The main focus for Bike Action was selling mid to high-end branded bicycles. Martin’s viewpoint was that consumers are willing to spend a bit more for branded bicycles, because they can rely on the quality and reputation. Besides it gives them a better image among buddies.

### 9. Marcel, Beukers Bike Centre. 24 May 2013.

Beukers Bike Centre is a large shop that actively promotes its own brand. The shop is full with staff working on different tasks. Marcel (owner of Beukers Bike Centre) has created his own brand sport bicycles, because it would increase his profit margin and give more customer retention. He mentioned: *“People who buy our brand know that they will always receive the best service from us and other partners that sell our brand”.* In his opinion the shop represented a level of quality that should be seen through all the brands and bicycles they sell. He added *“We test every item in the shop, because we don’t want to sell poorly made things.”* Customers trust the shop’s opinion and evaluation of a brand, therefore they’re not shy to sell unknown brands when they know it is good. Marcel was very familiar with importing from the Asian region. He added *“No matter how many times I have imported from China before, I always cross my fingers to see what happens at customs”.* In most cases nothing is wrong, but according to Marcel sometimes the delivery gets delayed by customs.

According to Marcel, e-commerce had not only influenced his prices but also his distributors. He mentioned: *"One of my distributors started to promote their own brand bicycle and purposely kept other brands on low inventory".* He continues on the topic saying that his shop isn't afraid for the online prices, because he is the only reliable shop in his area and most of these online shop service centers are located too far away. He also mentions that e-bikes are his reinforcements. Marcel believes that E-bikes demand local shops and can't be handled by online shops. He added: *"E-bikes can be sold for a good margin, but also have more complicated parts that need servicing by us. So each sold e-bike is also a promise for future earnings in replacement parts and service".*

**10. Evert, Rijwielpaleis. 24 May 2013.**

Rijwielpaleis is a shop located in a small town, it stands out with black and yellow colors. They have their own recreative sport cycle team and focus on selling sport bicycles. Rijwielpaleis has their own sport bicycle brand that they only sell in their shop. Evert (owner of Rijwielpaleis) mentions: *"Starting my own brand was an easy decision to make. The margins are better and I guarantee the quality."* He shares that he imports and designs all the components through an agency of a Taiwanese factory. Rijwielpaleis wants to guarantee the quality of their items and regularly import components from Taiwan. He mentions: *"A couple of professional cyclers of our cycle team test out all the new products from Taiwan and elsewhere before we commit to them".* The only problem is that he can never rely on a set delivery time, so he usually keeps a small stock of imported items that sell fast. He comments: *"I know I can trust the quality of brands over there but I never trust their delivery times".*

When the discussion shifted towards pricing he had a strong opinion about the online shops. According to Evert, online shops have damaged their selling prices but in reality brought the prices of certain components and whole bikes to a level that is more affordable. At Rijwielpaleis they are not too afraid for the online shops. John mentions: *"Customers come here for me and my staff, not for the prices. They already know I give them my best price and in the end they earn any difference back with our shop service". S*ome of his customers purposely spend more money on exclusive items in his shop, because they can show it off to their friends.

# Appendix 6: Internal interview summary

The internal interviews were open discussions that were semi-structured by the 9 segments of the business model canvas. Therefore the following topics were discussed:

| | |
|---|---|
| 1. Customer segments | 6. Key resources |
| 2. Value proposition | 7. Key partners |
| 3. Channels | 8. Revenue streams |
| 4. Customer relationships | 9. Cost structure |
| 5. Key activities | |

The following are the highlights of the interviews with Yi-Ching Chung, Even Chung, Lilian Yu and Sean Wei:

**Interview: Yi-Ching Chung (CEO of Point Asia). 15 April 2013.**

Yi-Ching Chung is CEO of Point Asia, responsible for daily operation of export, factory communication and sales for Pedaling Forward. Y-Ching discussed how the bicycle market has changed and become more transparent. He explained that retailers and consumers know very well where everything is mad, thanks to e-commerce. However retailers are less thankful because e-commerce opened a grey market in which products end up for discount prices. Yi-Ching Chung mentions: "E-*tailors basically rely on oversupply from major brands that cannot be sold to their regular channels, so the end up on the internet for discount prices".* The oversupply is a pressing issue according to Yi-Ching. He explained that many brand companies place high quantity manufacturing orders, so that the fixed cost is spread and they can earn a profit margin in theory. However in practice they've overproduced and force these products on the market, which eventually ends up on the grey market.

Furthermore he discussed their approach to retailers with high-end sport bicycles and components. He and Even Chung (CEO of Xinosys) had gone on business trips visiting various retailers in Europe and North America to visit retailers and invite them to Pedaling Forward. Yi-Ching stated: *"Every trip we've made has successfully added about 90% of the retailers we visited".* However Yi-Ching explained that these trips are very time consuming and when they return from the trip it is hard for them to follow-up. Yi-Ching however stated that there is no viable alternative to these trips, unless they invest a considerable amount in local representatives and be clueless about the message they send across to the retailers. He indicated that trust was very important in this business and their dealing with suppliers.

Yi-ching regrets the bad reputation Asian manufacturers sometimes have. Websites such as Alibaba.com allows retailers to get connected with manufacturers in Asia, but according to Yi-Ching these manufacturers are often agencies of the factory or falsely act as the manufacturer. Yi-Ching explained that the OBM factories of Pedaling Forward are the real deal and can also offer OEM/ODM services by customizing products.

**Interview: Even Chung (CEO of Xinosys). 18 April 2013.**

Even Chung is CEO of Xinosys, he is responsible for the daily operation of Patisco.com, services provided and makes most big decisions for Pedaling Forward. Even discussed how bicycle retailers have changed to price sensitive purchased because of e-commerce. He stated *"In the past, products past through many channels to reach the consumer. Everybody in the channel earned a lot and the consumer was non-the-wiser, until e-commerce".* He explained that now everything is involved around quantity purchasing. He said: *"I've been to a ZEG's warehouse in Germany, they were packed with bicycles (…) I was told that they held a steady inventory of 40,000 bicycles in each warehouse"*. According to Even the quantity purchasing is to retain reasonable profit margins, but he doubts that its able move that much product on a yearly base.

According to Even Pedaling Forward is the solution to the changing market, it provides market information to everybody involved and everything will come from the manufacturers. He stated *"Pedaling Forward is an ecosystem that promotes market feedback and closely involves dealers".* According to Even the feedback from retailers is important because it is very valuable information for manufacturers, he also stated *"Retailer's reviews help us gain valuable trust in our products".* He also explained how these reviews can influence the manufacturer's decisions for future product designs and how market sales directly change manufacturer's production.

According to Even a limitation is the high transport cost. He explained that quick delivery by air express is expensive but necessary, but it limits them to selling high-end products. Even stated *"High-end components are light weight and expensive, that can compensate for the transport cost"*.
Even further explained how they calculated a 10 working days lead time, but already once delivered to Canada within 7 days. Even explained that Pedaling Forward earns up to 35% from this transaction, depending on the goods, but about 30% goes to transport. Even states *"We hope to earn more on transactions in the future but for now we mostly rely on the supplisers annual subscription fee".*

**Interview: Lilian Yu (Head of marketing). 15 May 2013.**

Lilian Yu is head of marketing, responsible for managing market information and lead marketing projects of Pedaling Forward. Lilian Yu discussed how Pedaling Forward's marketing efforts are quite difficult without knowing each market, but social media helps understanding the market better and media such as Facebook is great to get closer to their customers. She stated: *"Through Facebook we hope to update all our customers with new product releases, share opinions, reviews and highlights in our field. Highlights such as new suppliers joining the program or Yi-Ching visiting new shops".* She continues, that the Pedaling Forward website also contributes to this cause with the hope that retailers will automatically sign-up on through the website.

On the topic of channels, Lilian shares that Pedaling Forward has been present in Taipei bicycle show 2013 and Euro bike show 2012 by joining one of their partner suppliers. She stated: "*These exhibitions give us the ideal opportunity to reach both markets. One, by giving retailers instant access to newly arrived products. Two, by giving manufacturers instant access to their most important distributor*". However retailers are not always present in the international exhibitions, that's why they also attend local exhibitions.

Lilian mentioned that after sales is solely reliant on Patisco.com. They hope they can process all questions and problems through the communication tools in the system. She stated: *"Retailers receive our full attention through Patisco.com, over the phone and email. We try to avoid email communication and encourage the retailers to use the system"*. She also mentions that suppliers receive the same sort of service but also have the possibility to visit the factory for further services.

**Interview: Sean Wei (Senior account manager). 15 May 2013.**

Sean Wei is senior account manager, he is responsible for the clients in North America and maintains the media platforms. Sean discussed how Pedaling Forward has to offer continues high quality service in order to keep their clients. He states *"Often enough retailers had a bad experience with Asian manufacturers".* According to Sean the communication play a key role in the relationship between Pedaling Forward, suppliers and retailers. He expressed that time difference makes it difficult for them to communicate over phone and that the effective messaging tools in Patisco.com overcome this. He states *"We have 105 retailers that are irregularly active on the system, through messages we are able to manage them otherwise it would be really tough"*.

According to Sean suppliers join Pedaling Forward because otherwise they have to go through many distributors to finally reach their end-consumer, but through Patisco.com they can access their most important distributor. He states *"OBM factories have a hard time to get their brand on the market, because they're unexperienced in marketing it themselves and distributors are not interested in doing it for them".* According to Sean these distributors are only interested in easy to sell products, because they have to buy in large quantities and can't take any risk. Therefore unknown brands from Asia don't reach the market.