

Brompton's position in the market



THIS year, Brompton Bicycle expects to sell 19, 000 of its folding machines, generating revenues of ? 7m and a pre-tax profit of ? 925, 000. But new managing director Will Butler-Adams is aware that if the west London business is to remain a player in a rapidly expanding global market it has to see significant sales growth. ' Last year one of our competitors made 350, 000 bikes," said Butler-Adams. " The market potential is huge. Selling 19, 000 is nothing. ' The problem is a mix of capacity - emphasised by a six-month lead time - and sluggish production methods. In the past we have not been able to make enough bikes to meet demand,' Butler-Adams said. ' We have been losing market share. The market has been growing 20% to 25% a year and we haven't been growing at the same rate. ' Using a system of double shifts backed by slicker systems, he wants to boost production to 50, 000 bikes a year. To reach that, Brompton Bicycle is half way through a ? 1m production revamp and has just had a change of management. Yet Butler-Adams is well aware that the debt-free firm's investment could be undermined by a competitor that not only compares on quality but undercuts on price. We are knee-deep in competitors,' he said. ' There is always the risk that someone could turn up with a bike just as good and compact as ours but for two thirds of the price. ' Brompton bikes sell in the UK for between ? 550 and ? 1, 200. Sales to Europe, the US and Far East account for 70% of income. ' I think we have the best folding bike but the competition is getting better all the time. If we don't take advantage of the opportunity in front of us, someone will come along and do a better job. They will be taking revenue and investing in research and development and will come up with something better. We have to move forward. The Brompton is unique, but not that unique. ' There are other problems. Any patents Brompton had

expired eight years ago, although the bike's design is still covered by copyright. Also, being based in a 22, 000 sq ft site in London, it does not benefit from the low wage structure of Taiwan, where 80% of bikes are made. In a country where traditional manufacturing skills are in short supply, Brompton has had to train many of its 85 staff in skills such as welding and brazing. It means that Brompton Bicycle - named after the area of London where the prototype was first developed - is unwilling to relocate.

In other cost areas, said Butler-Adams, it is more competitive. ' Most bike manufacturers are perpetually changing their models and so never refine their manufacturing process,' he said. ' Our bikes have hardly changed in 20 years and we have been able to invest over time in the tooling. It's a big upfront cost but it's an investment we have already made. ' Butler-Adams has further reduced costs by outsourcing non-core elements of the manufacture, retaining only the skilled machining and complex engineering at its Brentford base.

It is that engineering ethos that underpins Brompton. Butler-Adams said attention to detail - which started with the firm's founder, inventor Andrew Ritchie, when he created the company 20 years ago - is Brompton's main differentiator. ' They are built to last,' he said. ' We have to make sure that we don't become so obsessed by growing that we lose sight of that quality. ' The Brompton is not a commodity product. We don't want to sell 250, 000 a year as that would undermine the brand, making it so mainstream that it would lose its appeal.

We are not interested in sales for sales' sake. ' The big sales push is focused overseas. Despite having just 10 outlets in the US - compared to 100 in the

UK - America accounted for 5% of sales last year. ' We need to grow our overseas sales. ' Brompton sells direct to bike shops in the UK and US, using distributors to sell in other parts of the world. As only Brompton makes the spares, the firm continues to benefit from a revenue stream generated by the shops' after sales and servicing. It is that aftercare that precludes direct internet sales. We had the chance to go into 15 new shops in the US but didn't because we couldn't supply them,' said Butler-Adams, a chartered engineer who joined Brompton five years ago and who took over at the top this month following Ritchie's decision to step down and relinquish his majority shareholding. Marketing so far has been by word of mouth: enthusiasts from its 150, 000 worldwide users singing the praises of their Brompton. ' The foundation of a brand is what people say to each other about it,' he said. But to ramp up sales, Butler-Adams knows that the firm will need a more structured approach. We are going to have to start from scratch with marketing. We need to decide what we are about and what we want to communicate. We have to get our distribution, routes to market and brand awareness right. ' The target market are urbanites, commuters and those with boats and caravans - anyone, in fact, who wants a bike that folds to the size of a suitcase. The good news for would-be customers is that the six-month waiting time is now down to three weeks. ' I guess that'll give us another challenge,' said Butler-Adams. ' Now we are fulfilling orders more quickly, how do we fill the lull in the winter months? EXPERT VIEWS Tom Hings, Director of brand marketing, Royal Mail Brompton's premium brand status is a key asset. People buy in to quality and expect to pay more, and so it should not be afraid of being more expensive. It just needs to understand the limit of the price premium the brand will carry. Tradition, quality and

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quirkiness - and the British heritage - should work well in the US and Far East. This will create customer pull, making it easier to secure additional distribution. Brompton could capitalise on the brand strength by licensing production to an overseas manufacturer.

It would benefit from reduced costs and better proximity to the overseas markets, leaving the UK operation to focus on Europe. Rigorous checks will be needed to ensure quality is not compromised. Word-of-mouth marketing has been very effective so far, and Brompton can use the web and blogs to create a community and generate word-of-mouth buzz. What better way to drive brand engagement and develop product improvements than by engaging the very people who use the product to develop the Brompton bike of the future? Max Cliff, Managing director, markets, AXA

The growing market presents a real opportunity to Brompton, but it needs to acknowledge that its brand positioning and capabilities to an extent limit this opportunity. The success of the business has been built on a quality product at a premium price which drives value. Rapid growth without careful management could easily dilute the brand offering and jeopardise this value if quality and service start to suffer. It will require a careful balancing act. Before any major marketing campaigns or distribution deals are engaged, it is crucial that it has the capacity to meet orders.

Brompton's ability to grow is constrained through its manufacturing capability, unless it considers other options to increase production. If it can safeguard quality, licensing production to capable manufacturers could boost capacity and lower costs. The big question is the longer-term view. The barriers to entry here are low and there is little evidence of innovation and

Research & Development activity. Although a niche strategy can be sustained, nothing lasts forever. Chris Stening, Managing director, UK Online

Brompton needs to invest in Research & Development to build market share and ensure it doesn't do anything that devalues its brand position or points of differentiation. The best way for Brompton to maintain quality and a high standard of after-sales service is to franchise in international markets. It might also be worth appointing a new director with experience of trade in the US and China. E-commerce would also be a possibility, enabling the brand to expand its reach. Most important, e-commerce is a lower cost channel, enabling profit margins to be maintained.

Brand is a priority to develop Brompton's position as a niche player. It already seems to have very strong brand values - it just needs to shout about them. A consumer PR consultancy is a cost-effective, creative means of articulating and educating what Brompton is. There are many ways this could be done, from using celebrities to endorse use of the bike to viral marketing such as an online competition for the most far-flung uses of Brompton bikes around the world. Source: Philip Smith, The Daily Telegraph (LONDON) 1 April 2008