

How many chances
for small independent
bicycle retailers?
essay sample



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The purpose of this report is to provide key findings of New Zealand's current external business environment of small independent bicycle retailers. This was achieved through analyses of articles and reports about existing bike retailers industry. The report established New Zealand's demand for bikes is currently high due to several benefits of cycling and the Government's encourage. Findings also highlighted that there are difficulties for new retailers such as demographic problem, low marginal margin, or cash flow problem. It observed competition within bicycle retailers and the current market structure which changed to massive cutting price sales. However, bicycle retailers need to provide services and experience to customers instead of cutting price as it is not a sustainable strategy. Moreover, the end this report has some recommendations which could help people to decide whether they should open their own small independent bicycle shops and how they could help the shops work efficiently. Introduction

This report was commissioned to assess the key aspects of the current external business environment for small independent bicycle retailers in New Zealand, in order to determine what are the advantages and difficulties for a business in this environment. The New Zealand bicycle industry is not very attractive due to high competition between rivals in the market and the large amount of substitute vehicles. However, New Zealand Government has taken many efforts to improve air quality and reduce CO2 emissions (Pestle Analysis, 2009). This is somehow encouraging citizens to prefer bicycles more than cars and motorbikes. Furthermore, factors such as improving health and fitness are creating a good chance for new retailers to enter the bicycle market. Nevertheless, demand for bicycle is currently high does not

mean small independent retailers can sell their bikes easily. High buyer's power requires retailers in the market to focus on innovation, creating good relationship with customers and deliver high quality services. Discussion High demand for bike in New Zealand

In the first decade of the 21st century, there was a sharp increase in the number of people cycling. According to Sport and Recreation New Zealand surveys, this number significantly rose by 81 per cent during 2000 to 2008 (Bicycle chains, 2011). There are a lot of reasons for people to cycling more than before as this activity offer various benefits. There are sets of free Bike Wise resources to help the country get more people on their bikes, especially on the workplace. New Zealand transport agency's Jennie Gianotti says that encouraging employees to cycle to work, take lunch-time cycle breaks, or participate in company-wide cycling events can benefit both individual and the workplace (Cycling good, 2013). Cycling together may also create better relationships among staff in the company and members in the family. There are families who buy mountain bikes to ride on the weekend because cycling is a cost-effective, fun and adventurous way for them to exercise and play together.

Parent in family finds that cycling is one of few activities which could be enjoyed by people in every age. Cycling is one kind of cardiovascular workout without the gym fees. This activity helps students and workers to feel more productive, more alert, and more awake and less stressed in their works, improves their health and fitness. Timaru cycle retailer Graeme Howes said that fitness bikes for commuting and riding on the road were selling well; usually to woman (Bicycles are more in demand, 2006).

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Moreover, high petrol price and parking cost which hurt people wallets are also letting them buy bicycles instead of cars to save money. Some more reasons which make people prefer bicycle than car are traffic congestion and a desire for cleaner environment.

Cycling is encouraged in many countries in the world as cycling is not only saves commutes' money, but also helps the country' economy and the world environment. A report in Australia by the Cycling Promotion Fund shows that the health systems save \$277 million a year because cyclists are fitter, while reduced congestion on the roads saves \$64 million and greenhouse gas emission reductions amount to \$9 million (Hely, S., 2008). According to department of the Environment and water resources in 2007, for each kilometer that people cycle instead of drive, there is about 0.3 kg of CO₂ has been saved (Environmental benefits of cycling, 2013). This means that a people can reduce a ton of CO₂ if he or she uses bikes instead of car to go to work.

Overall, demand for bicycle is getting higher and higher in the modern world where people focus on the fitness and green issues. Therefore, this is a good chance for people who want to be a bicycle retailer to enter the bike market. However, there are already some big bike retailers in market such as Bike Barn, Giant or Torpedo⁷; new comers, especially small individual retailers will find it is hard to compete with them. Problems, Threats and Difficulty in bicycle retailers market. It is true that demand for bicycle is getting higher than before. New retailers can take this chance to enter the market and make profits in the short run. However, New Zealand has a small number of population which approximately 4.2 million people (People, 2012). There are <https://assignbuster.com/how-many-chances-for-small-independent-bicycle-retailers-essay-sample/>

already 1. 27 million bike riders in New Zealand in 2007 (Ministry of Transport as cited in Robinson, J., 2007). This is not a good number when there are numerous retailers in New Zealand bicycle market which imports hundred thousand bikes per year (Bicycle chains, 2011). In the long run, this market will soon reach its peak due to limitation of the number of customers. Small independent bike retailers face several problems when they are competing to other retailers.

Firstly, competing with big brand retailers is not an easy thing to do. Big brand retailers like Bike Barn is currently own 15 shops which are allocated in every big cities of New Zealand. This will help this retailer control stocks easier than independent shops. In general, if one shop in the chain received a customer order, but currently that model is out of stock, other shops could immediately help. The independent retailers, in contrast, always need to be careful with what they stock, make sure their mind to distinguish personal preferences to customers' wants and how many bicycles they should import. The reason for this is that cash flow is a big challenge for independent retailers (Martin, S., 1998). They want to be ready for customer order, but a wrong choice of import will make a huge loss to the shop. Bicycles mean dead money if retailers cannot sell them. Thus, the advantage of big brand is very high. Secondly, cut price retailing, constant discounting has changed the face of the bicycle industry, says Francis Hutchinson, an industry veteran of more than 30 years (Bicycle chains, 2011). Many independent retailers have failed, include Penny Farthing store, which was New Zealand's oldest big bicycle retailer.

They have fallen and were victims of the structure changes that have taken place in cycle retailing (Bicycle chains, 2011). It's hard to avoid price competition with retailers who focus on heavy discounting to easily sale bigger amounts of bikes. That was one reason which made the industry structure changed. Bike Barn, for example, is currently promoting a massive sales, with 50% of price reduced for all mountain bikes. This will attract new customers to come to their stores instead of other stores. However, heavy discounting strategy is actually not a sustainable way for business and small independent bike retailer should not compete by cutting price. The reason is this strategy will start a downward spiral that squeezes profit margins and may lead you toward bankruptcy (Martin, S., 1998). Significantly, e-commerce nowadays plays an important role in the way people sell and buy products.

Trading on the Internet is getting more popular and many retail companies include bicycle retailers, are working on creating and improving their ecommerce websites (Pestle Analysis, 2012). Big retailers in New Zealand usually have their own Internet home pages, which help them deliver information to customer very easy. The Households use of ICT survey 2009 shows that the number of New Zealand households who have access to the Internet at home increased from 65% in 2006 to 75% in 2009 (Pestle Analysis, 2012). Customer nowadays can buy an oversea brand new bicycle from home, or a cheap secondhand one via trading websites like trademe.co.nz or amazon.com. Thus, the rise of the Internet market is a threat rather than an opportunity for small retailers who have limited budget to spend to develop a strong e-commerce website. Ignoring the problems of

competitors, there are still some other problems such as low marginal margin and cash flow. There was a study in U. S which shown that the average gross profit margin on bicycle sales is 34. 4%, while the cost of doing business for the average bicycle shop is 36. 6%; and the average shop in U. S had just a 5. 3% before-tax net profit (Martin, S., 1998). This means that open a small independent shop is not a good way to get rich quick.

Conclusion

This report analyses New Zealand's bicycle retailers industry and determining the influence of social life changes and the economy to the growth in demand for bikes. It shows the various reasons why customers want to buy bicycles such as improve fitness, reduce CO2 emission and save money. Besides, it shows key difficulties of small independent retailers in the bicycle market. Significantly, it concluded that small independent bicycle retailers have small chances to be rich. However, it is not impossible as long as the retailers can put enough efforts and follow well strategy.

Recommendations Focus on service is the answer of how bicycle retailer could make profit.

Here are some key recommendations: 1. Customers need experience of the bicycle retailers. Good advises and enthusiasms will build a strong relationship with customers. 2. Small independent retailers need to focus on a specific segmentation. That will reduce the risks of keeping too much different bike models. 3. Cross selling bikes with accessories, helmets, and clothes help the shops increasing profit. And, open a bike cafe shop is not a bad idea. 4. E-commerce may not good for small independent bicycle

retailers. However, they can use internet to advertise their shop to <https://assignbuster.com/how-many-chances-for-small-independent-bicycle-retailers-essay-sample/>

customers. Create a normal e-commerce website is also not a hard thing to do.

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North & South, (261), 74-79. Retrieved from Australia New Zealand Reference Centre database.

Research Annotations Research Annotation 1 Reference Search Strategy Annotation Bicycle chains bump small stores. (n. d)(2011). New Zealand Herald. The. This source was located on Australia New Zealand References database by typing " Bicycle retailer" and " New Zealand". This source is a New Zealand Herald news, published in 2011, about New Zealand bicycle retail market. It contained information about the rising in the number of people who cycle, the increase of the amount of bikes imported to New Zealand in the first decade of the 21th century. This was due to the rise in popularity of cycling.

More importantly, this source talked about the two main changes of the New Zealand bicycle retailer industry. The first change is the market structure which switched to cutting price sale strategy. The source also recommended that this strategy is not sustainable and determined failure of many independent bicycle retailers due to this change in industry structure. Furthermore, the second major change has seen wholesalers moving in on retail trade. Moreover, the source concluded that owning an independent bicycle shop is a tough challenge. Citing information from this source has made the report stronger as the source clearly provide information of the popularity of cycling in modern life, changes in bicycle market and challenges retailers may have.

Research Annotation 2 Reference Search Strategy Annotation Martin, S. (1998). So... you want to open a bike shop. *Bicycling*, 39(8), 60. This source <https://assignbuster.com/how-many-chances-for-small-independent-bicycle-retailers-essay-sample/>

was located on Australia New Zealand References database by typing “ Bike retailers” This source talked about the difficulty of opening a bicycle shop in U. S. It contained the costs of starting a bicycle retailer business and the core problems the business will face. The source was published in 1998, it talked about U. S bicycle market. However, it greatly illustrated information which relevant to all bicycle retailers in general. The information about problems such as cashflow, low marginal margin, and difficulty in buying stock are useful. This source also stated that bicycle should not cutting price to compete with other because this strategy is danger and not sustainable for the business. Its helped improve the strength of this report. There are good information in the article of what people should do to make the business easier like purchase an existing business or find a good location. However, some information were not very relevant to New Zealand industry therefore they were not used in this report.