



Bike Wars: Two Specialty Retailers Race to the Finish

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Introduction

Retailers face an increasingly difficult challenge to have their voice heard in a crowded market. Not only do they have to outwit competitors with clever merchandising, creative store layout, and careful inventory management – they also have to understand how best to communicate their promotional offers to customers.

This second challenge can be perplexing as not all retailers are the same and competition is affected by available merchandising channels. For example, competitors in the same category can be single channel in brick and mortar, catalog, or online, or be operating with a mix of all three.

Generally speaking, there isn't a successful catalog retailer operating today without a website and most brick and mortar retailers have gone online. Some have added a catalog. Just to keep things interesting, some online retailers eschew the expense of printed catalogs and supplement their online marketing efforts with advertising campaigns in mass media.

Imagine slipping into the moccasins of the Chief Marketing Officer at any large multi-channel retailer and trying to understand the challenges they face. Think through the array of marketing tools that can be used in each channel and the complexity of the marketing mix that needs to be assembled to attract and retain customers today.

This Case Study examines a competitive scenario between two leading retailers of cycling gear and supplies - Bike Nashbar and Performance Bike. There is a de-facto advantage to one of the players and a key channel that the other can leverage to fight back. The conclusions raise as many questions as it offers answers. The ultimate question: what would you do if wearing the moccasins of either Chief Marketing Officer.



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Industry Background

The \$14 Billion U.S. sporting goods industry is highly fragmented, even more so when considering the multitude of sports that comprise the category. Over the period 1999 – 2007, purchases of sports equipment in all channels rose 17%.

Over the same period, the internet has become an influential sales channel as sports equipment purchases have risen from 1.4% of the total market in 1999 to 10.1% in 2007. This equates to an increase in internet sports equipment sales from \$750 million to more than \$2.5 billion over the same period - a 242% increase.

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According to the National Association of Sporting Goods Retailers, Cycling was the second most popular recreational activity in the U.S. during 2006 with 64 Million participants. This is surprising considering there was no mainstream television coverage of the sport at the time.

The demographics of cyclists are impressive as 25% of visitors to the USA Cycling Website reported income greater than \$100,000 and the median income for recreational bicyclists was \$60,000. Corresponding to this purchasing power, the average price for a racing bicycle was \$3,500 in 2007. Couple these figures with the impressive growth of triathlon in the U.S., and the opportunity for cycling retailers becomes even more attractive.

USA Triathlon membership surpassed 115,000 in 2009 with 49.4% reporting incomes \$100,000 or greater. On average, triathletes are from high socio-economic backgrounds with median incomes of \$126,000. As a group, about 50% of category spend is on bikes and bike equipment with the average reported \$2,274 on bikes and \$524 on bike equipment in past 12 months.

Bike Nashbar & Performance Bike

We chose to study these two retailers for good reason. They are among the top 5 nationwide and compete with Colorado Cyclist, Competitive Cyclist, and Excel Sports for this valuable demographic. Search the terms “cycling gear” and “bike gear” in Google and both brands jockey for first position among search engine results.

In a series of searches conducted over several days, Bike Nashbar (www.nashbar.com) consistently turned up #1 for “bike gear” and #2 for Cycling gear, while Performance Bike (www.performancebike.com) won top ranking for “bike supplies” and “cycling supplies”. REI Sports had a strong presence in all results as seen in the table below. They also evidenced pay-per-click presence on most competitor pages as did Performance Bike.

	Ranking by Search Terms			
	Cycling Gear	Bike Gear	Cycling Supplies	Bike Supplies
Bike Nash Bar	2	1	n/r	n/r
Performance Bike	Ad Words	Ad Words	1	1
REI	1	2	Ad Words	Ad words



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The strong search engine results represent the limit of similarity between the two competitors.

Performance Bike styles itself as "America's #1 Cycling Retailer", and operates an extensive brick and mortar network with 80 stores in 15 states. The company ties together stores, catalog, and online sales channels with "[Team Performance](#)" a frequent buying program that proclaims to be "Cycling's #1 Buyer's Club".

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The Club Team commands a \$25 annual fee and provides these benefits:

- 10% earned on every purchase (10 points per dollar spent)
- Points may be redeemed online, in-store & with phone orders
- Shipping upgrades are made available
- An exclusive members-only section of the website offers special deals

Separate, but complementary to Team Performance is the "Performance Bicycle Rewards MasterCard". This cobrand credit card issued by Barclays U.S. offers an introductory \$20 reward coupon with first purchase and a 1% earn rate thereafter.

Bike Nashbar competes online and via catalog but does not have a brick and mortar network. From our review, there was no evidence of any frequent shopping club, cobrand card, or other continuity efforts to build customer loyalty. The company did offer payment options via Bill Me Later, available on "orders over \$250".

Bike Nashbar seems instead to rely heavily on short term promotional offers. The principal web offer on 4/17/09 offered "20% off clothing & components now thru Friday".

Comparing promotional activity by both competitors in the internet sales channel is one measure to compare and contrast marketing strategy. We know from the industry background that internet sales are growing faster than in any other channel, and it is the one common element of the marketing mix available for comparison.

Hanifin Loyalty catalogued and reviewed email received from each retailer over a 9 month period during 2008. If we didn't know better, we might conclude that the same person was responsible for the email marketing campaigns at both companies. In fact, we were so surprised at the mirror-like use of email that we did check to see if there was common ownership behind the scenes (there wasn't).

Promotional email issued collectively by the two companies shared these statistics within basis points of one another:

- Average emails per month – 11
- Average during December – 14
- 88% of all email issued on a Monday-Wednesday-Friday cadence
- 75% of all mail was sent while we slept (between 11pm - 8am)
- The balance of email was sent during working hours (8am - 6pm) with nothing at all sent during home evening hours (6pm – 11pm)
- 71% of emails were time-fused, i.e. "3 days only"



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The substance of email promotions were highly similar and had no substantive differentiation. The table below illustrates:

	<i>Bike Nashbar</i>	<i>Performance Bike</i>
Offers	10% off – 3 days only	\$10 off orders > \$50
	20% off – orders over \$100	10% off orders >\$50
	Free Shipping – orders >\$100	Free Shipping – orders > \$100

Conclusions

Performance Bike has a business footprint of much greater magnitude than Bike Nashbar. The brick and mortar store network presumably creates an advantage with consumers, though it is impossible to estimate the net EBITDA contribution from the physical locations as both organizations are privately held and financial results were not available. It would be interesting to know if Bike Nashbar’s online model created inventory efficiencies and yielded higher margins.

Performance Bike has launched its Team Performance frequent shopping program and has made a sufficient case to engage Barclays to issue a cobranded credit card. Taken collectively, these elements combine to create a defensible competitive edge in favor of Performance Bike.

From our review, the catalog offerings from Performance Bike and Bike Nashbar are on par with each other. It appears that the web is the key battleground where Bike Nashbar must take the fight to the competition.

Why then does Bike Nashbar allow itself to be mired in uninteresting parity with its principal competitor? The high volume of email arriving at predictable intervals and filled with redundant time-limited offers could be training recipients to glaze over and hit the delete button before opening the email.

Surely the company is aware of the similarity in email marketing between their company and Performance Bike. By not differentiating in their email communications, Bike Nashbar is foregoing a powerful opportunity to advance their brand and engage their best customers.

One of these competitors needs to break the cycle (no pun intended), and differentiate in its email marketing efforts. We suggest that the email strategy be subjected to complete overhaul. A good place to start would be to build a competitive grid of email offers and then view the body of work as “what not to do”.



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Beyond re-engineering its email marketing efforts, Bike Nashbar could introduce several additional enhancements to its marketing mix:

- Establish a community of fans and provide an environment where brand buzz and word-of-mouth enthusiasm for its products can flourish.
- Structure and launch a Loyalty program that doesn't just match up to Team Performance, but exceeds their benefit package.
- Enter into sponsorships with recreational groups and race organizers to position their brand in front of enthusiasts who aspire to own the latest biking gear.

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Bike Nashbar could blend a mix of these three suggestions to battle back against Performance Bike. It could also engage a strategy that hasn't occurred to us.

That's why we have asked our expert panel to review this Case Study and offer insights into what it will take for Bike Nashbar to put forth a differentiated Customer Strategy and to revamp its email marketing strategy.

In the next week, we will post comments from our panel on this Case Study to Loyalty Truth (<http://blog.hanifinloyalty.com>). At that point, we invite readers to add their own comments, critiques, and suggestions. We look forward to the conversation.

Footnote:

Industry statistics were obtained from the following sources:

USA Cycling

<http://www.quantcast.com/usacycling.org>

<http://www.usacycling.org/corp/demographicslastyr.php>

Sporting Goods Industry

Simmons, MRI, USA Cycling, National Sporting Goods Association

USA Triathlon

Study conducted by the TribeGroup in early 2009 <http://www.usatriathlon.org/content/index/817>