

2005 U.S. Bicycle Market Statistical Overview  
NBDA Cost of Doing Business  
Trending Analysis  
1993 – 2005

NBDA Cost of Doing Business Survey

The National Bicycle Dealers Association (NBDA) has been conducting Cost of Doing Business surveys for the better part of two decades. This unique research program for U.S. bicycle shops represents the most-up-to-date comparative financial performance information available anywhere. The Cost of Doing Business studies are an invaluable resource designed as an easy-to-understand tool for bicycle shop owners and managers to evaluate their own business operating results so that they can identify strengths and weaknesses and more importantly take advantage of opportunities and improve profitability.

It has been our experience that too few bicycle shop owner's purchase and use the Cost of Doing Business surveys, despite the very favorable pricing offered to NBDA members, and the affordable price to non-members. More bicycle shop owner's and managers need to acquire and use the Cost of Doing Business surveys to objectively evaluate their retail businesses and to establish benchmarks for profit improvement and growth objectives.

Of equal concern in this time of rapid change is the lack of support from channel suppliers and brands for the Cost of Doing Business study and the invaluable data and information that it represents to and for bicycle shop owners and managers. The greatest asset our channel of trade has ... is it's retailers. The better and stronger the retailers are the better and stronger the whole channel of trade is. It follows that suppliers and brands should do everything they can to get as many copies of the NBDA Cost of Doing Business survey into the hands of as many bicycle shop owners and managers as possible.

The most current Cost of Doing Business survey was conducted during the last quarter of 2005 and has published as *NBDA 2006-2007 Financial Survey: Cost of Doing Business for Specialty Bicycle Retailers*. Details and online ordering will be found at [www.nbda.com](http://www.nbda.com).

The Numbers

The Cost of Doing Business (CODB) survey reports cover key performance measures in three areas: profitability, productivity and financial management.

Most of the financial performance indicators included in the CODB reports are on the basis of medians rather than averages or means. Unlike the mean, the median is not distorted by a small number of unusually high or low values that are reported by the panel of retailers and included in the sample. The median represents the mid-point of the

figures for a particular measure, with one-half of the responding bicycle shop firms reporting figures above, and one-half below.

Most of the financial performance indicators are expressed as percentages of total revenue.

### Bicycle Shop Reporting Segments

The CODB survey is organized into 14 reporting segments, as follows:

- All Respondents
- High Profit Firms
- Total Company Revenue:
  - Under \$300,000
  - \$300,000 to \$499,999
  - \$500,000 to \$1 million
  - Over \$1 million
- Number of Stores:
  - Multiple Store Firms
  - Single store Firms
  - Single Store Firms With Under 2,500 Square Feet Selling Space
  - Single Store Firms With 2,500 Square Feet Selling Space and Over
- Region:
  - Northeast
  - North Central
  - South
  - West

### This CODB Analysis

We have focused this CODB analysis on the following 6 out of the total of 14 reporting segments:

- All Respondents
- High Profit Firms
- Total Company Revenue:
  - Under \$300,000
  - \$300,000 to \$499,999
  - \$500,000 to \$1 million
  - Over \$1 million

For **All Respondents** and **High Profit Firms** we developed a trending report that includes the following four financial categories for comparison of CODB data from seven studies, 1993, 1995, 1997, 1999, 2001, 2003 and 2005 as conducted over the last 12-years:

- Sales Data
  - Total Revenues Per Store
  
- Margins And Turnover
  - Bicycles
    - Initial Markup at Retail
    - Gross Margin
    - Inventory Turnover
    - Gross Margin Return on Inventory (GMROI)
  
- Total Operating Expenses
  - Gross Margin to Total Operating Expenses
  
- Net Operating Profit (or Loss)

## All Respondents (All Responding Bicycle Shops)

### Sales Data

Table 1 shows the growth in revenue per store for All Bike Shops from a median of \$327,154 in 1993 to a median of \$549,000 in 2005.

Table 1.  
All Responding Bike Shops: Median or Typical Total Revenue

	1993	1995	1997	1999	2001	2003	2005
Total Revenue per Store	\$327,154	\$402,500	\$458,122	\$411,688	\$500,000	\$450,000	\$549,000
Variance year to year		\$75,346	\$55,622	(\$46,434)	\$88,312	(\$50,000)	\$99,000
Variance Year to year		23.0%	13.8%	-10.1%	21.5%	-10.0%	22.0%

Source: NBDA Cost of Doing Business Reports

This revenue growth over 12-years for All Bike Shops totals \$221,846, which is about double the rate of inflation in the U.S. over the same time frame.

### Margins: Bicycles

We have focused specifically on new bicycle sales because this represents the biggest single merchandise category for bicycle shops, with 47% to 49% of total annual revenue.

As you will also see as this analysis progresses, new bicycle sales represents the single biggest challenge and opportunity for bicycle shops going forward.

Table 2 shows the initial markup (or mark-on), the realized gross margin and the gap between what gross margin bicycle shops wanted to achieve, and what they actually realized on the sale of new bicycles over the last 12 years.

Table 2  
All Responding Bike Shops: Median or Typical Initial Markup to Gross Margin: Bicycles

	1993	1995	1997	1999	2001	2003	2005
Initial Markup	36.0%	37.0%	38.0%	40.0%	40.0%	40.0%	40.0%
Realized Gross Margin	33.0%	34.0%	34.4%	36.0%	36.0%	37.0%	38.0%
Variance	-3.0%	-3.0%	-3.6%	-4.0%	-4.0%	-3.0%	-2.0%

Source: NBDA Cost of Doing Business Reports

The gap between initial markup and realized gross margin has remained between –3% and –4% until 2005 when the gap improved by 1% to –2%, which is trending in the right direction, and the median realized gross margin of 38% is the highest it has been over the last 12 years. However, as we will cover in more detail later in this analysis, the initial markup of 40% is by itself problematical because for too many bike shops it falls below the cost of doing business, or total operating expenses.

#### Turnover and GMROI: Bicycles

Table 3 shows the typical turnover for bicycle inventory, along with the gross margin return on inventory, or GMROI – calculated by dividing gross margin by inventory. GMROI indicates whether an adequate gross margin is being earned compared to the investment in inventory required to generate the gross margin dollars.

Table 3  
All Responding Bike Shops Median or Typical: Bicycle Inventory Turnover and GMROI

	1993	1995	1997	1999	2001	2003	2005
Bicycle Inventory Turnover	2.8X	2.6X	2.5X	2.6X	2.5X	2.5X	2.5X
GMROI	NA	\$1.28	\$1.31	\$1.52	\$1.38	\$1.38	\$1.46

Source: NBDA Cost of Doing Business Reports

Bicycle inventory turnover has been stuck at 2.5 turns per year since the beginning of this decade, and the highest turnover was reported in 1993 at 2.8 turns per year. Is this good, or bad? We will do a comparison with High Profit bike shops, but the answer is – not good. Annual bicycle inventory turnover of 2.8 to 3.0 contributes to actually making a profit on the sale of new bicycles – which is something that the typical bike shop has had difficulty with over the last 12-years, as we will explain shortly.

The GMROI on new bicycle sales has fluctuated, but the \$1.46 achieved in 2005 is definitely in the right direction. The typical bicycle GMROI for high profit bike shops in

2005 was \$1.94, and this is another operational metric that contributes to making a profit, or at least breaking even on the sale of new bicycles.

Realized Gross Margin Bicycles vs Total Operating Expenses

Table 4 shows realized gross margin on the typical sale of new bicycles against the typical total operating expenses and the shortfall, which equates to the typical loss on the sale of new bicycles.

Table 4.  
All Responding Bike Shops Median or Typical:  
Bicycle Gross Margin; Total Operating Expense; Profit or Loss

	1993	1995	1997	1999	2001	2003	2005
Gross Margin: Bicycles	33.0%	34.0%	34.4%	36.0%	36.0%	37.0%	38.0%
Total Operating Expenses	36.7%	35.4%	36.6%	37.7%	39.9%	42.5%	43.3%
Profit or Loss	-3.7%	-1.4%	-2.2%	-1.7%	-3.9%	-5.5%	-5.3%

Source: NBDA Cost of Doing Business Reports.

***The Phillips Rule.*** Harley Phillips, former President of the NBDA and retired bicycle storeowner spent the better part of 25-years educating bike shop owners and managers about the simple rule that "...you never sell anything at retail below your cost of doing business!" We are looking at 12-years of the typical bicycle shop violating or ignoring *The Phillips Rule*, and taking a loss on the sale of just about every new bicycle sold in the channel. High profit retailers have been doing better until recently, and as we will show, this situation is prevalent among all four of the revenue categories covered by the CODB studies – so it doesn't get any better with more revenue or the size of the business.

Net Operating Profit (or Loss)

Table 5 shows the typical store operating margin, total operating expenses and net operating profit for all reporting bike shops. This can be looked at as the national median, or the typical U.S. bicycle shop. (Please note that the median percentages will not always add up to the exact total.)

Table 5.  
All Responding Bike Shops Median or Typical:  
Store Operating Margin; Operating Expenses; Net Operating Profit

	1993	1995	1997	1999	2001	2003	2005
Operating Margin	41.4%	40.3%	42.3%	42.5%	43.5%	44.4%	45.3%
Operating Expenses	36.7%	35.4%	36.6%	37.7%	39.9%	42.5%	43.3%
Net Operating Profit	4.7%	5.0%	5.8%	4.8%	3.7%	1.8%	2.1%

Source: NBDA Cost of Doing Business Reports.

The typical bike shop generated a relatively modest 4.7 to 5.8% operating margin in the 1990's, but starting with 2001 net operating profit trended downward to the current 2% level. By comparison high profit stores generate three to four times this level of net operating profit.

## High Profit Bicycle Shops

According to the NBDA CODB High profit bicycle shop firms are those in the upper 25% based on before tax return on assets.<sup>1</sup> The National Sporting Goods Association (NSGA) defines high profit firms as those in the upper 25% based on net profit before tax to total revenues.<sup>2</sup> In either case the high profit bike shops in the U.S. are the best retail performers in the channel. They stand out because of their profitability and productivity. In the 2005 CODB 19% of the responding firms were identified as being high profit bicycle shops.

### Sales Data

Table 6 shows the revenue growth of high profit bike shops over the last 12-years, from \$392,594 in 1993 to \$799,000 in 2005. You might recall the growth for all responding bike shops was inconsistent with two years of decline mixed in. High profit bike shops on the other hand show steady, consistent growth with a total increase of \$406,406 over the seven years of the CODB studies. The increase is triple the rate of inflation for the 12-year time frame.

Table 6.  
High Profit Bike Shops: Median or Typical Total Revenue

	1993	1995	1997	1999	2001	2003	2005
Total Revenue per Store	\$392,594	\$416,427	\$447,083	\$489,818	\$558,403	\$662,066	\$799,000
Variance year to year		\$23,833	\$30,656	\$42,735	\$68,585	\$103,663	\$136,934
Variance Year to year		6.1%	7.4%	9.6%	14.0%	18.6%	20.7%

Source: NBDA Cost of Doing Business Reports

### Margins: Bicycles

High profit bike shops show the same initial markup to realized gross margin trend as all responding bike shops – that is a consistent shortfall or gap between what owners and managers wanted to achieve in gross margin, and what they actually achieved as shown in Table 7. The whole of the channel has been stuck at a median, or typical initial markup of 40% on new bicycles for the last 6-years, typical realized gross margins have been consistently between 36% and 38% over the same 6-years (from 1999 to 2005).

<sup>1</sup> 2006-2007-NBDA Financial Survey: Cost of Doing Business Survey for Specialty Bicycle Retailers, page 2.

<sup>2</sup> 2004-2005 NSGA Cost of Doing Business Survey, page 4.

While this isn't where high profit bike shops stand out from all other bike shops, we believe increasing initial markup and realized gross margin on sales of new bicycles represents an opportunity for growing retailer revenue and profitability going forward.

Table 7.  
High Profit Bike Shops: Median or Typical Initial Markup to Gross Margin: Bicycles

	1993	1995	1997	1999	2001	2003	2005
Initial Markup	36.5%	37.0%	38.0%	40.0%	40.0%	40.0%	40.0%
Realized Gross Margin	33.0%	34.4%	35.6%	36.1%	36.2%	36.1%	37.4%
Variance	3.5%	2.6%	2.4%	3.9%	3.8%	3.9%	2.6%

Source: NBDA Cost of Doing Business Reports

The shortfall or gap between high profit bike shops typical initial markup and realized gross margin is trending in the right direction if variance reported in 2005 continues to narrow over the second half of this decade.

#### Turnover and GMROI: Bicycles

Bicycle inventory turnover and GMROI are two areas where high profit retailer's productivity and financial management stand out. As shown in Table 8, the high profit bicycle retailers came back from a low 2 inventory turns in 1999 to 2.8 in 2001 and 3 turns per year in 2003 and 2005. This compares to the 2.5 annual inventory turns on bicycles that all responding firms have been stuck at virtually since 1995. The additional one-half turn is driving a stronger GMROI on bicycles, which in turn is contribution to an overall stronger net operating profit for the high profit retail stores.

Table 8.  
All Responding Bike Shops Median or Typical: Bicycle Inventory Turnover and GMROI

	1993	1995	1997	1999	2001	2003	2005
Bicycle Inventory Turnover	2.4X	2.6X	2.4X	2.0X	2.8X	3.0X	3.0X
GMROI	NA	\$1.28	\$1.27	\$1.72	\$1.72	\$1.49	\$1.94

Source: NBDA Cost of Doing Business Reports

#### Realized Gross Margin Bicycles vs Total Operating Expenses

High profit bike shops have consistently generated profit on the sale of new bicycles for most of the 12-years covered by this analysis, as shown in Table 9. 1993 shows a loss of **-0.9%**, and for the next five CODB studies, from 1995 through 2003 the high profit retailers made a slim profit on the sale of new bicycles – well above the performance of all responding bike shops and all the revenue categories.

The 2005 CODB survey brings with it a concern about high profit bike shops relative to new bicycle profitability. In a year of greatly increased revenue, driven by the sales of more higher priced road 700c bicycles, the typical high profit bicycle retailer reported a slight loss on the sale of new bicycles. This is alarming because it reverses a trend of

profitability in the single largest, and some would argue, most important of all the product categories carried by specialty bicycle retailers.

Table 9.  
High Profit Bike Shops Median or Typical:  
Bicycle Gross Margin; Total Operating Expense; Profit or Loss

	1993	1995	1997	1999	2001	2003	2005
Gross Margin: Bicycles	33.0%	34.4%	35.6%	36.1%	36.2%	36.1%	37.4%
Total Operating Expenses	33.9%	32.7%	34.4%	34.7%	33.9%	35.6%	37.5%
Profit or Loss	-0.9%	1.7%	1.2%	1.4%	2.3%	0.5%	-0.1%

Source: NBDA Cost of Doing Business Reports.

### Net Operating Profit (or Loss)

This is one of the key financial metrics that determines if a bike shop is high profit or not, at least according to the National Sporting Goods Association (NSGA). Table 10 shows the 12-year trend in high profit bike shop operating margin, operating expenses and net operating profit. While all responding bike shops have a typical net operating profit ranging from a high of 5.8% to a low of 1.8% of total revenue, high profit bike shops have a typical net operating profit ranging from a high of 9.9% to a low of 7.0% over the last 12-years. (Please note that the median percentages will not always add up to the exact total.)

Table 10.  
High Profit Bike Shops Median or Typical:  
Operating Margin; Operating Expenses; Net Operating Profit

	1993	1995	1997	1999	2001	2003	2005
Operating Margin	42.9%	41.9%	44.0%	44.3%	43.8%	42.6%	45.8%
Operating Expenses	33.9%	32.7%	34.4%	34.7%	33.9%	35.6%	37.5%
Net Operating Profit	9.0%	9.2%	9.5%	9.6%	9.9%	7.0%	8.3%

Source: NBDA Cost of Doing Business Reports.

While the overall net operating profit reported by high profit retailers is impressive, the erosion starting in 2003 with 7.0% and continuing in 2005 with 8.3% is of concern. The typical high profit operating margin of 45.8% in 2005 is the highest achieved over the 12-years we have analyzed, but the operating expense of 37.5% is also the highest over the same time frame. We have included Chart A to illustrate the net operating profit trends between all responding bike shops and high profit bike shops.

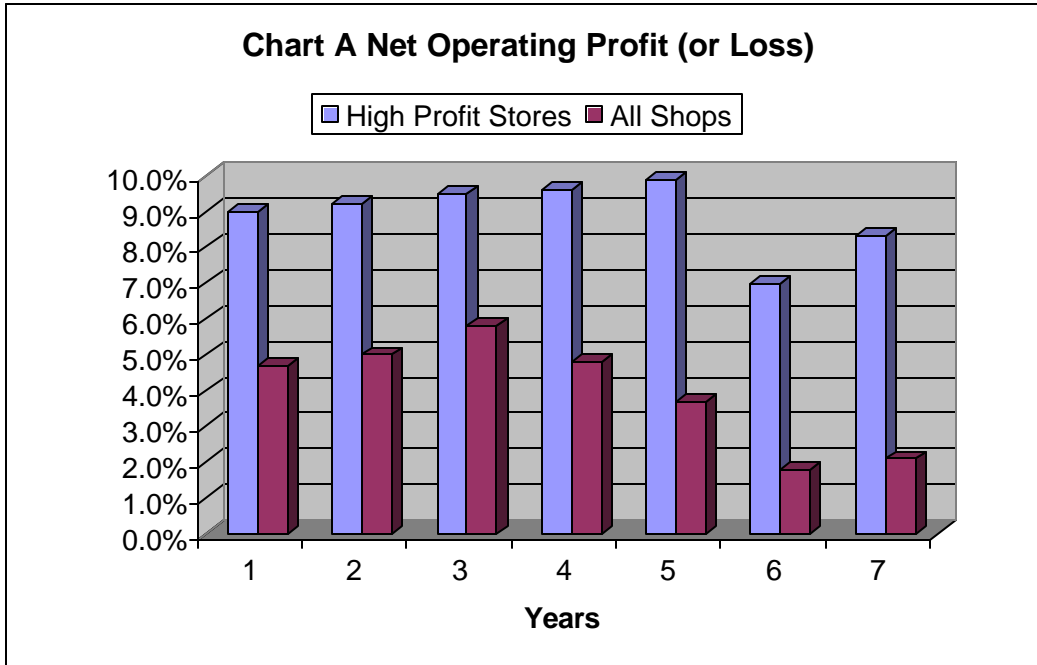
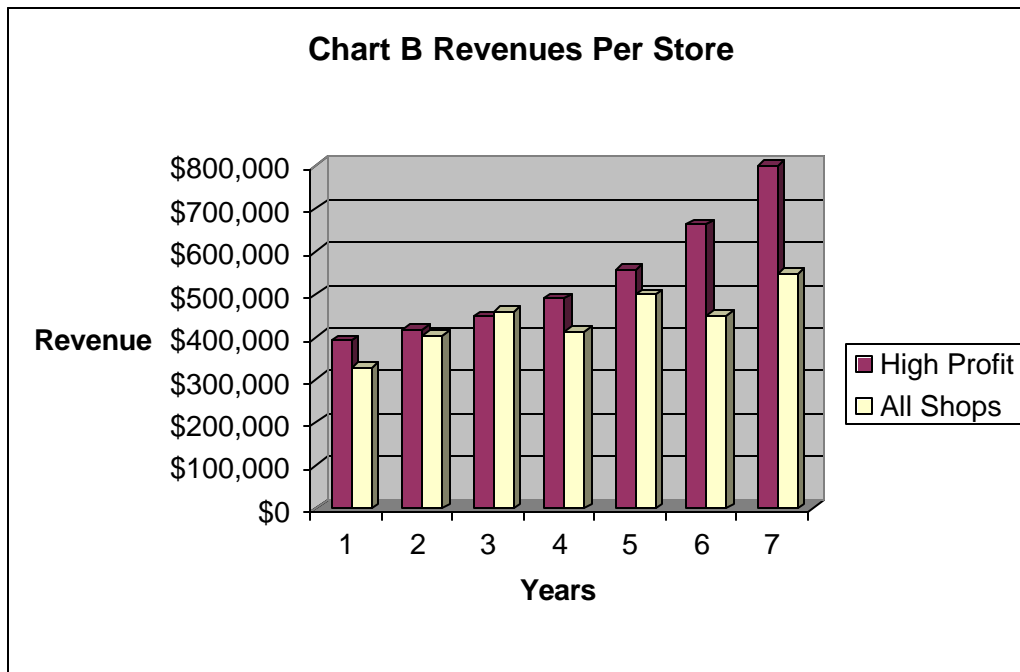


Chart B compares the typical total revenues over the last 12-years of all responding bike shops and high profit bike shops. Note the steady, consistent revenue growth of high profit shops compared to the more erratic revenue growth of all responding bike shops.



## Total Company Revenue

Our analysis of the four reporting revenue categories has been limited to the last seven-years, from 1999 through 2005 and four CODB surveys conducted in 1999, 2001, 2003 and 2005. The four revenue categories are:

- Under \$300,000
- \$300,000 to \$499,999
- \$500,000 to \$1 million
- Over \$1 million

We have focused on only two reporting areas:

- Bicycles: realized gross margin vs. operating expenses
- Store operating margin, operating expenses and net operating profit

For comparison we are revisiting the typical high profit bike shops and all responding bike shops.

### Bicycles: realized gross margin vs. operating expenses

Chart C shows typical high profit bike shops generating a profit on the sale of new bicycles from 1999 through 2003, with a slim  $-0.1\%$  loss in 2005.

Chart C.

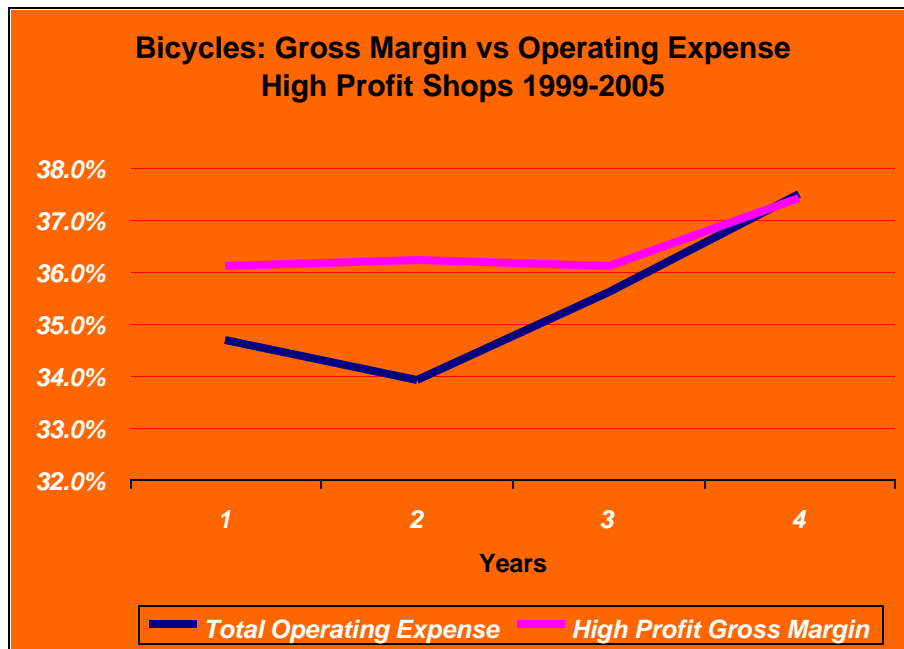


Chart D shows the consistent loss on new bicycle sales generated by the typical U.S. bike shop as reported by all respondents to the four CODB surveys from 1999 through 2005.

Chart D.

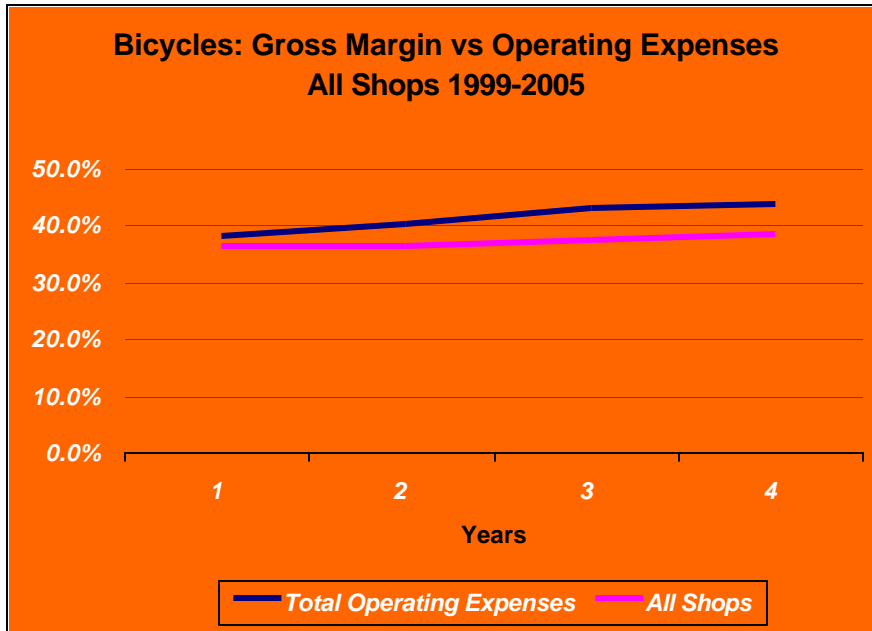


Chart E. shows the loss on new bicycle sales for the typical bike shop doing under \$300,000 in annual revenue.

Chart E.

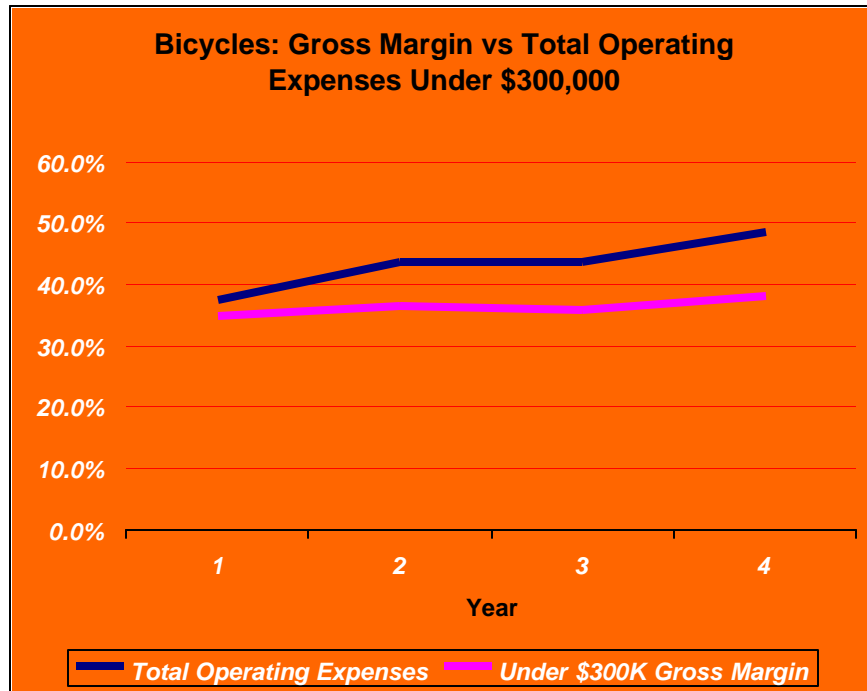


Chart F shows the loss on new bicycle sales for the typical bike shop doing \$300,000 to \$499,999 in annual revenue.

Chart F.

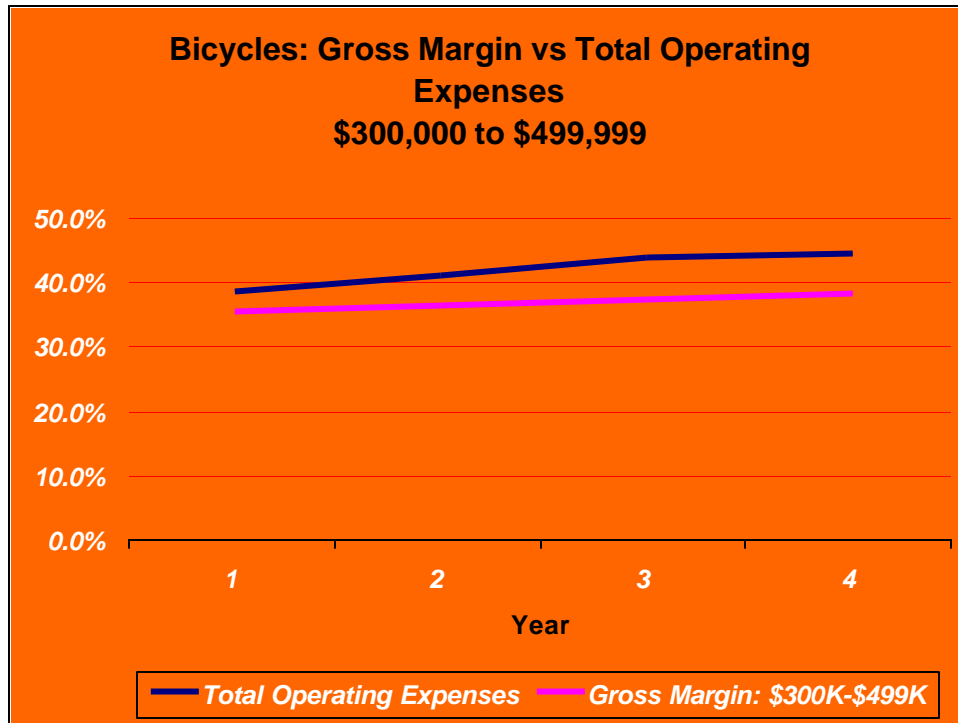


Chart G shows the loss on new bicycle sales for the typical bike shop doing \$500,000 to \$1 million in annual revenue.

Chart G.

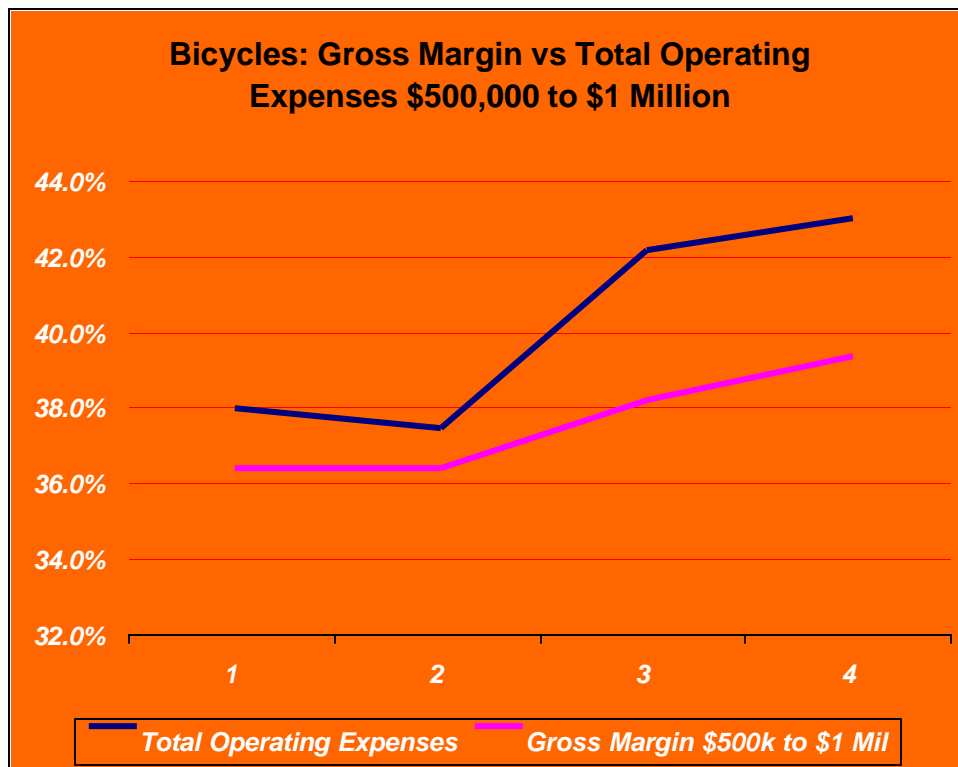
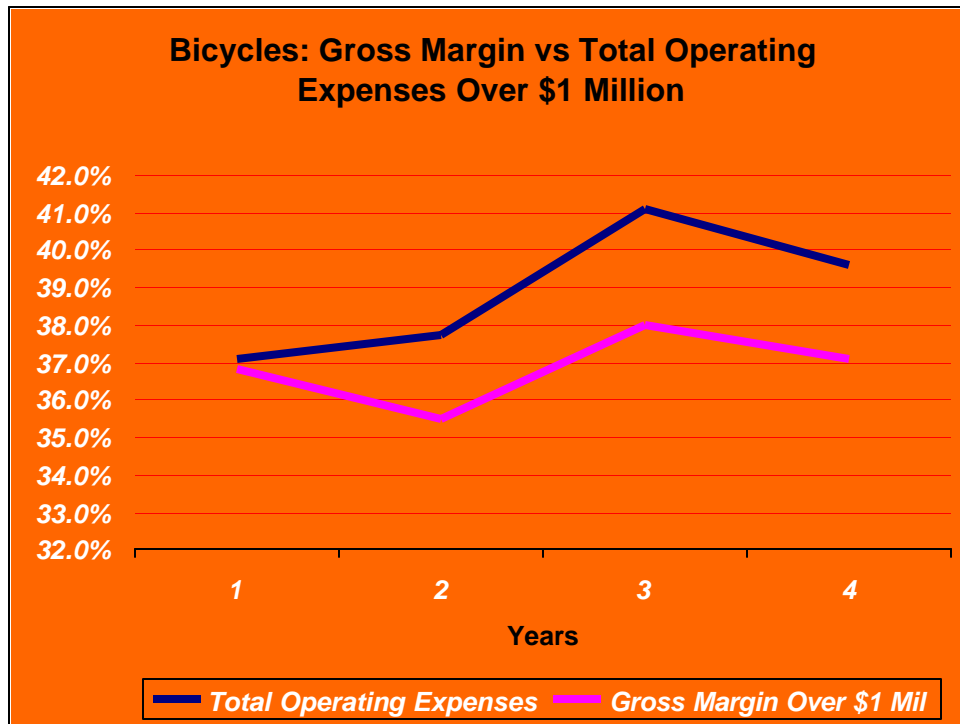


Chart H shows the loss on new bicycle sales for the typical bike shop doing over \$1 million in annual revenue.

Chart H.



There are definitely bicycle retailers in the U.S. that have consistently made a profit on selling new bicycles. However, they are probably all in the high profit category which constituted 19% of all bike shops participating in the 2005 survey, leaving approximately 80% of U.S. bike shops generating a consistent loss or at best a breakeven on the sale of new bicycles over the last 7 to 12-years. You might also recall that the typical high profit bike shop was reported as generating a slight loss on the sale of new bicycles in 2005, the first such typical loss in the past 12-years. This is reflected in net operating profit, the last area of this analysis.

Store operating margin, operating expenses and net operating profit.

Chart I revisits the typical store operating margin, operating expenses and net operating profit of high profit bike shops so that we can establish the benchmark to compare all responding bike shops and bike shops in each of the four revenue categories.

We have added a note to Chart I pointing out that high profit bike shops consistently generate annual net operating profit in the 7% to 10% range.

Controlling expenses is also a factor in generating higher profitability and the high profit bike shops consistently report total operating expenses below 38%.

Chart I.

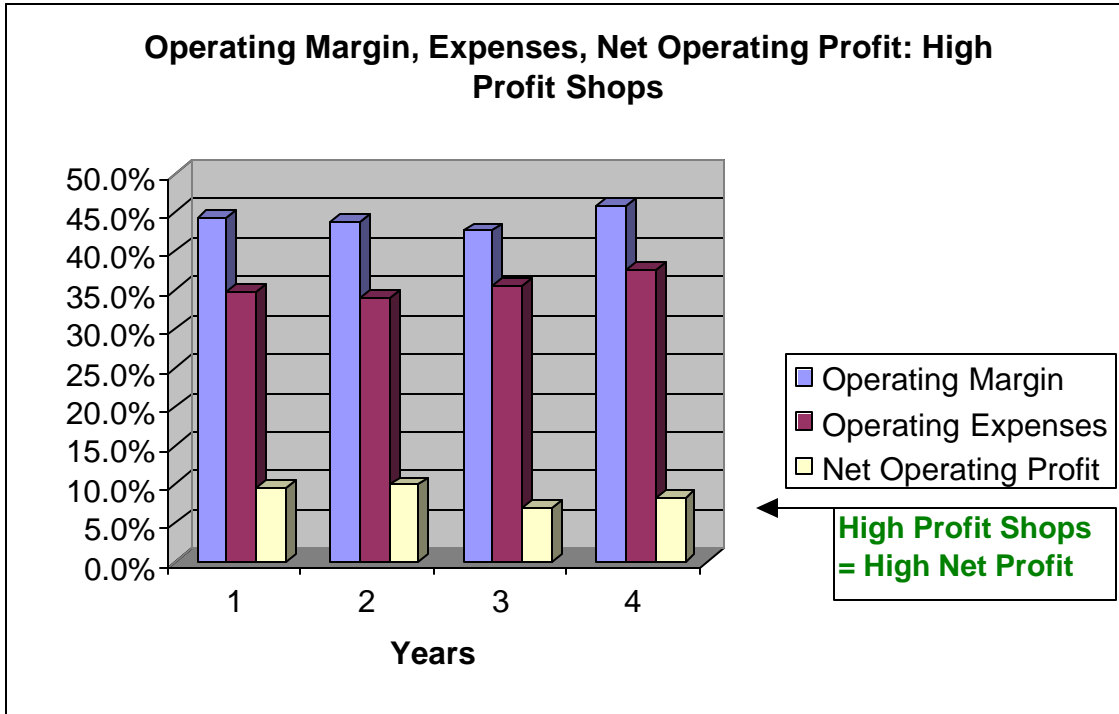


Chart J revisits the typical for all responding bike shops, and clearly shows the upward movement of operating expenses above 40% while net operating profit has been pushed below 3%.

Chart J.

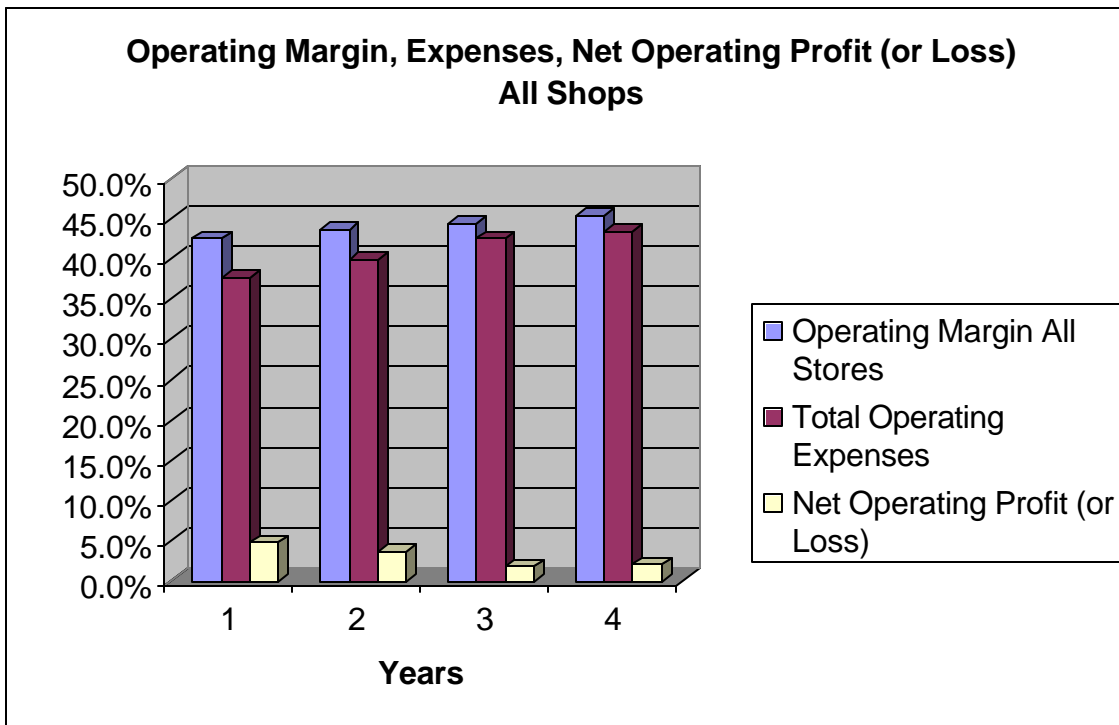


Chart K shows operating margin, operating expenses and net operating profit for the typical bike shop generating under \$300,000 in annual revenue. Typical operating expenses have pushed up over 40% to just under 50% in 2005, while operating profit has been driven down to under 3% 2001 and 2003, and to an alarming 0.9% in 2005.

Chart K.

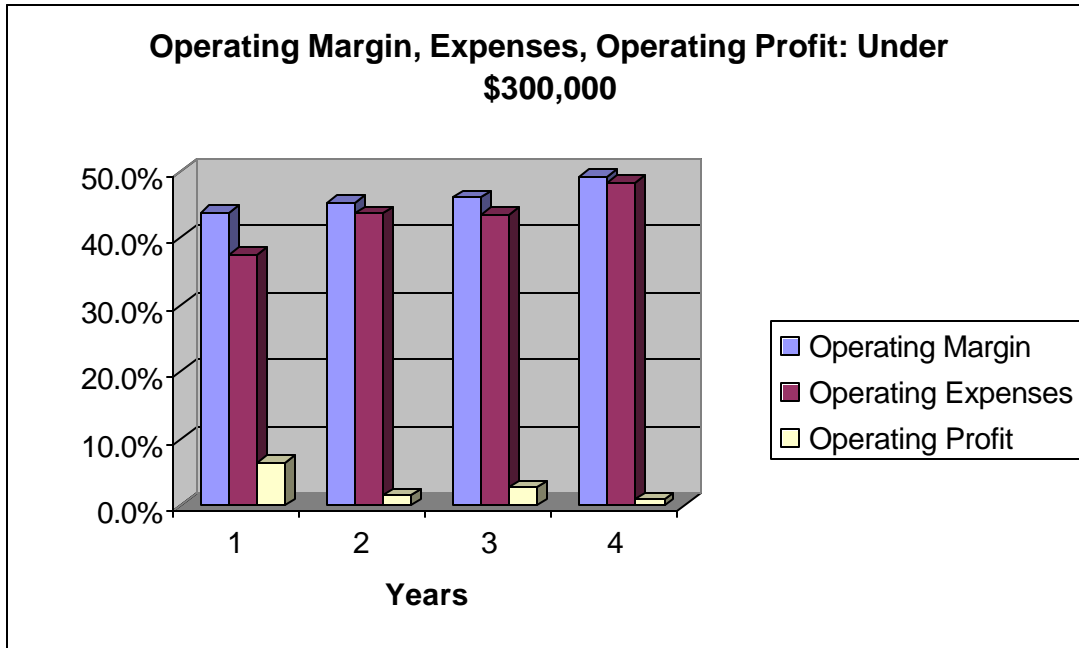


Chart L.

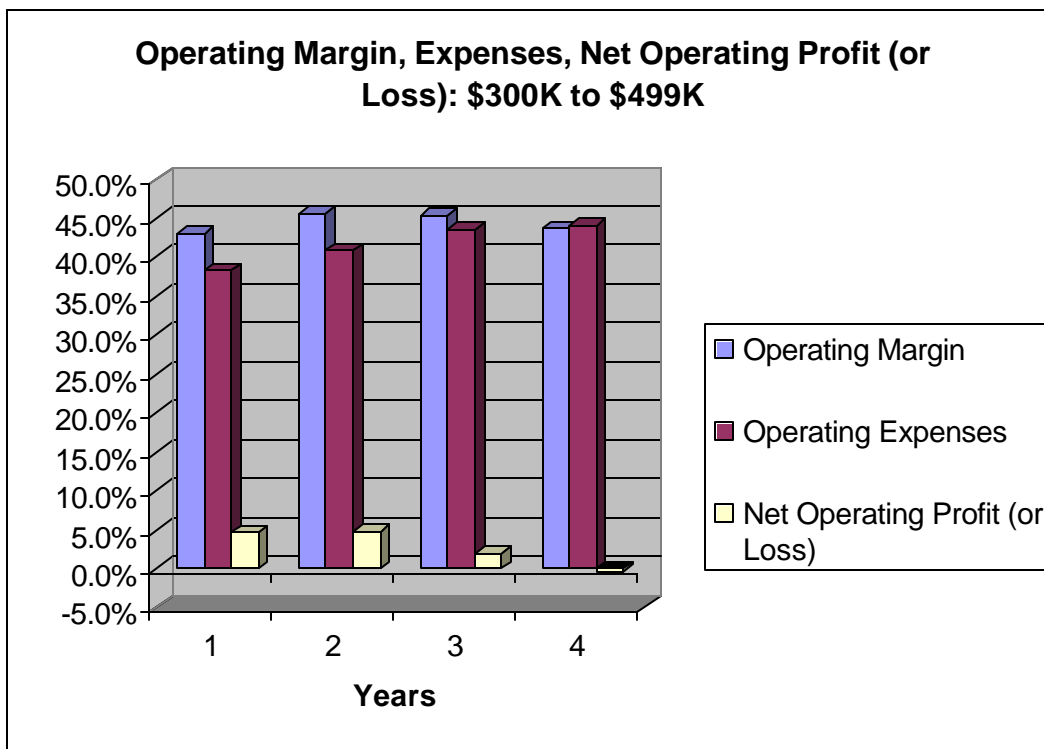


Chart L on the previous page shows the typical bike shop generating \$300,000 to \$499,999 in annual revenue. Total operating expenses have pushed over 40% and were just under 45% in 2005. Net operating profit has been driven from just under 5% in 1999 and 2001 to a loss of **-0.4%** in 2005.

Chart M.

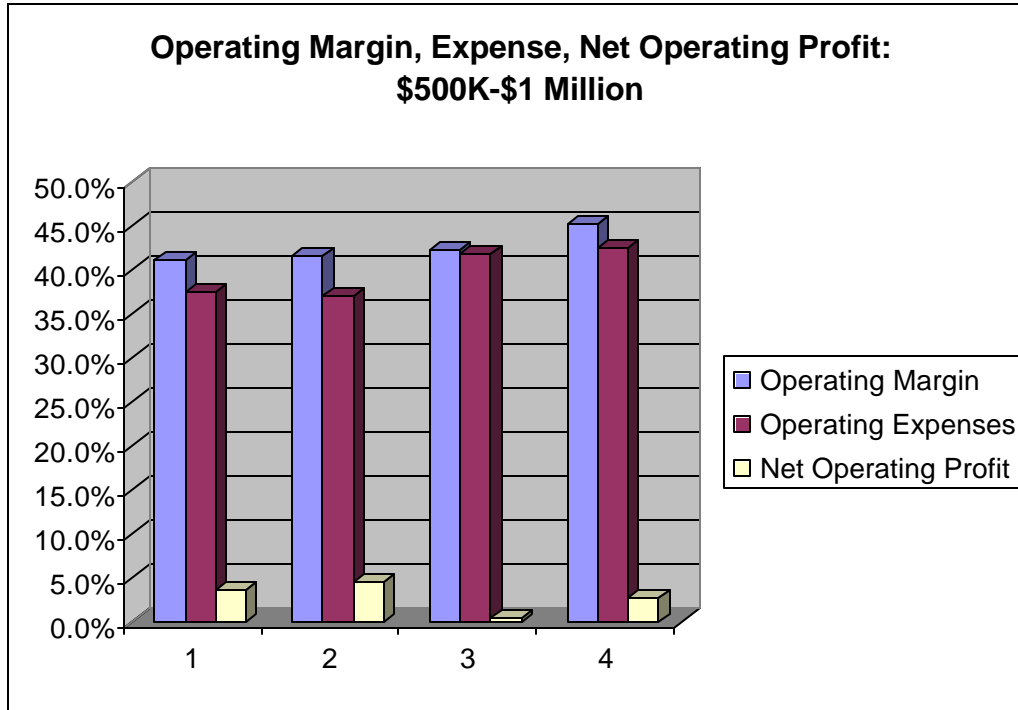


Chart N.

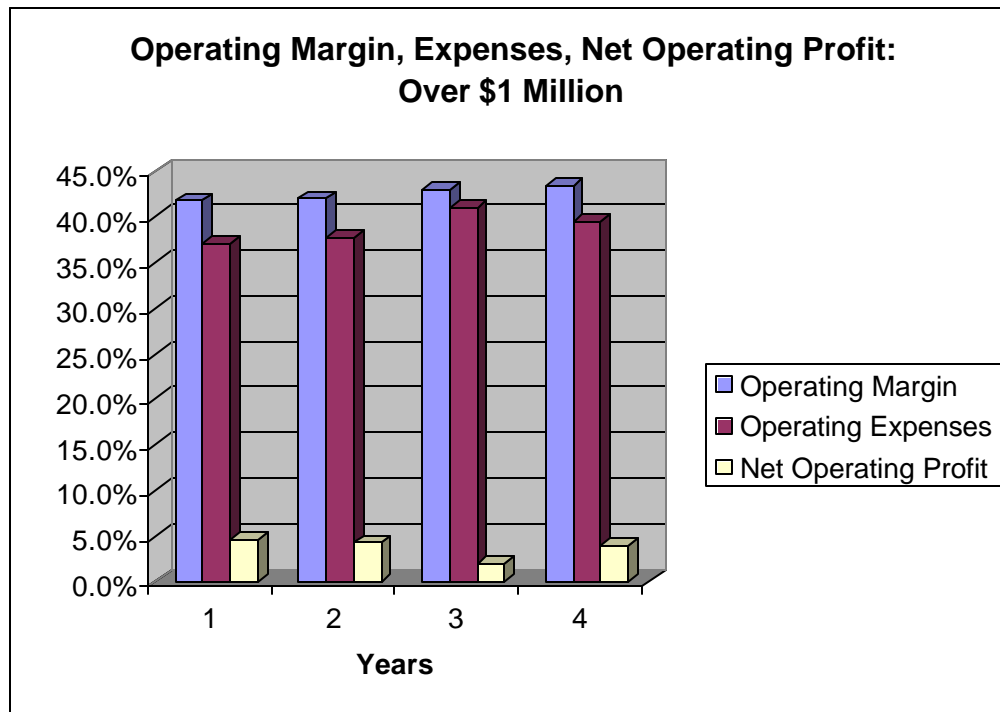


Chart M at the top of the previous page shows the typical bike shop generating \$500,000 to \$1 million in annual revenue. The pattern is the same, and operating expenses have pushed over 40% and operating profit has dropped below 3%, although the 2.7% achieved in 2005 is encouraging.

Chart N at the bottom of the previous page show the typical bike shop generating annual revenue over \$1 million. Operating expenses pushed over 40% in 2003, but have dropped to 39.6% in 2005, which is encouraging, but still too high. Net operating profit also made a comeback from a low of 2.0% in 2003 to 4% in 2005, about half of what it should be to meet the high profit benchmark for net operating profit.

### In Summary

- The typical bike shop in the U.S. has taken a loss on the sale of new bicycles for over a decade. This is significant for a number of reasons, including the fact that new bicycle sales represent between 47% and 48% of total store revenues.
- Initial markup for new bicycles has remained at a typical 40% for 6-years, from 1999 through 2005. This initial markup appears to be undervaluing most new bicycles, and needs to be reviewed by specialty bicycle retailers to determine what can be done to increase the initial markup and the realized gross margin on new bicycles.
- Some U.S. bicycle shops have made consistent profit on the sale of new bicycles, and are probably classified as high profit bike shops, which constituted 19% of all responding firms to the 2005 Cost of Doing Business survey. This leaves approximately 80% of the typical U.S. bike shops consistently selling new bicycles at a loss, or at best breakeven.
- The typical high profit bike shop has consistently made a profit on the sale of new bicycles. However, in 2005 the typical high profit bike shop reported a slight loss on the sale of new bicycles.
- Retailers need to revisit and adopt *The Phillips Rule* as a part of establishing consistent product pricing policies to increase revenue and gross margins.
- Most bike shops need to focus on increasing inventory turnover on all categories by at least one full turn per year.
- Total operating expenses have increased for the typical U.S. bike shop over the last 12-years, and in particular since the year 2000.
- High profit bike shops have done a better job of controlling total operating expenses, although the last two Cost of Doing Business surveys show a steady increase in expenses.
- The majority of U.S. bike shops, including high profit retailers need to adopt policies, procedures and systems to control and reduce operating expenses.
- The typical high profit bike shop has established the benchmarks that all U.S. bike shops should strive for and set operating objectives from.