

An Exclusive Interview with Merida GM & A-Team Chairman

Michael Tseng

Text & Photos: Editorial Dept.

The Merida Group produced a total of 1.84 million bicycles last year, including 890,000 from the group's Taiwan plant and 950,000 from its Chinese plants. The group had sales revenue of NT\$15.3 billion, a majority of which could be attributed to the Taiwan plant (NT\$11.5 billion). Bikes made at the Taiwan plant had an average export FOB price of US\$430; in contrast, bikes from Merida's Shenzhen fetched an average FOB price of US\$140, and bikes from its Shandong plant fetched prices of US\$120. Compared with 2008, the group's production and sales decreased slightly by 4% and 2% respectively. Looking ahead to the remainder of 2010, in view of the start of economic recovery in Europe and the United States, along with the consumption of last year's inventory, Merida predicts that its sales will grow by 15%, and its output will reach 2.12 million bikes.

Different sales prospects in China and Taiwan

Due to overheated market conditions in 2008, Merida's domestic market sales surged by a factor of 2.5 and set a historic record. But in the wake of the economic downturn last year, Taiwan's sagging economic growth, and other unfavorable events such as the severe typhoon on August 8, Merida's domestic sales fell by more than 20%. During 2009, Merida



▲ A firm believer in focal management and execution, Merida GM Michael Tseng deserves much of the credit for the company's explosive success.

sold close to 140,000 bikes in Taiwan at an average unit price of roughly NT\$7,000. Consumption in Taiwan's domestic market was still depressed at the start of 2010, and sales are not expected to increase much during the rest of the year. But despite this situation, Merida plans to continue to expand its marketing channels. It currently has six flagship stores in Sindian, Neihu, Taichung, Tanzih, Changhua, and Kaohsiung, and hopes to increase this number to ten by 2012. It also has 23 product display centers, and wants to increase this number to 50. It further hopes to increase its dealerships from the current

55 to 70-80, and increase franchise shops to around 150-180. Finally, Merida would like to keep its total sales locations in the range of 250-300.

Because of its slumping sales in Taiwan, last year Merida relied on its 16 subsidiaries and 2,000 sales locations in China to rack up extraordinary sales volume. Merida sold 220,000 bikes that year, which was 40% more than during 2008, and average unit price exceeded RMB 1,000. Positioned as the leading mountain bike brand in China, Merida vigorously expanded its sales network in hope of capturing a share of China's vast and still-growing market. In addition to brand promotion and marketing, it also devoted extensive efforts to increasing its e-bike sales. In spite of China's still murky laws and regulations concerning e-bikes, Merida has been energetically preparing to develop this key market. The R&D team at its new Shandong plant has developed both no-frills and luxury e-bikes targeting the mid-level and upper-end markets. These bikes have suggested retail prices of RMB 1,800-4,000, which is far higher than the average price of RMB 1,200 for e-bikes in China.

Upbeat about the road bike market

Because Merida produces bikes for export only after receiving orders, it has no bicycle inventory to deal with. Because the international mountain bike market is approaching saturation, little growth in MTB sales can be expected in the short term. In contrast, the road bike market appears to be ready for growth. Because road bikes have a high entry threshold, high prices (entry-level bikes start at approximately NT\$10,000/US\$300), and a high level of technology, they currently have room for growth and a lot of potential, although they appeal to a smaller market than mountain bikes. In addition, Merida has embarked on a campaign to develop and market new, reasonably-priced women's bicycle models. Road bikes account for approximately 20% of shipments from Merida's Taiwan plant, but the company plans to direct a considerable portion of

its marketing efforts to road bikes this year. Furthermore, Merida also looks forward to introducing several models of crossover bicycle types that have recently been gaining an extraordinary amount of attention from a market hungry for diversity. Other goals for the year include developing fashionable personal products and bicycle accessories.

Continued expansion of Taiwan plant

The prohibitive anti-dumping duties that the EU has slapped on bicycles exported from China will expire during July of this year, and many people are wondering what will happen next. If the duties are rescinded, Merida will be ready to produce export bikes at its two plants in China. If the duties are renewed, Merida can still export bikes to Europe from its Taiwan plant, and will therefore be in a favorable position no matter what happens. Manufacturers must prepare for and respond to all contingencies. Addressing the severe shortages of labor that companies have been facing in China, GM Tseng noted that the labor shortage is a structural problem resulting from changes in the Chinese economy and population, and there is probably no magic solution in the short term. In view of the fact that China's status as the "world's factory" is facing new challenges, Merida has adopted a contrarian strategy of expanding production at its Taiwan plant and boosting product added value. The Taiwan plant employs around 1,000 persons, and average per-employee output is close to NT\$12 million, said Tseng, who noted that this productivity is four to five times as high as at its Chinese plants. From the point of view of return on investment, Merida should naturally strive to expand its Taiwan plant. Merida's Shenzhen plant employs around 1,200 persons, and its new Shandong plant employs 600. Merida considers employee training to be a key element of its competitive strategy, and rotation training and promotion pathways at its Chinese plants are helping improve mid-level management skills, while also enabling the company to retain talent.

A sales peak in January

After gaining increasing numbers of new model orders and follow-up orders, Merida's exports experienced a resurgence this January. The company's production lines have been running at full capacity throughout the first quarter, and current orders will keep employees busy until at least June. Although the second quarter is traditionally the slow season for the bicycle industry, Merida is looking forward to a bustling time this year. January sales hit NT\$984 million, which was up by 26.2% compared with the same month last year. In addition, Merida's sales volume of 81,500 bikes was up by more than 50%, and set a new record for the month.

The five key elements of a successful brand

Merida has relied on joint ventures, vertically-integrated manufacturing, marketing, and outstanding service to build brand recognition and establish itself as one of Taiwan's twenty leading international brands. According to Michael Tseng, who is dedicated to management efficiency, good execution, pragmatism, and hard work, after two decades of building its brand, Merida has learned the value of attention to basics, allowing give and take, and sharing the benefit. In addition, since establishing a new brand is a painful and time-consuming process, acquiring a valuable international brand through purchase or investment, and pooling the resources and strengths of both parties, is actually the most effective way to get a brand, said Tseng. Reflecting his dedication to the company brand, GM Tseng stated the five key elements of a successful brand; (1) minimize conflicts with OEM customers; (2) differentiate your products from OEM products, and find niches for your products; (3) never give in as a leader; (4) maintain ceaseless dedication to R&D and innovation; and (5) cultivate international marketing manpower and an international outlook.



▲ According to Chairman Tseng, the A-Team bears the crucial mission of supporting and guiding breakthroughs and development in the bicycle industry.

The A-Team's goals in 2010

Looking ahead to 2010, A-Team chairman Michael Tseng looks forward to helping member companies strengthen their constitutions and management systems, and hopes to build strong and lasting competitive strength at the grassroots level. In addition to continuing to implement Toyota's three-in-one production management system (TQM, TPS, TPM), Tseng will also strive to enhance coordination between members, and realize the A-Team's goal of promoting Taiwan as the "Bicycle Island." The A-Team will accordingly rely on cycling or get-together activities to encourage members to ride more and get in the habit of cycling, and will also help members to acquire prominent international brands and market their own brands. Crises will always occur, said Tseng, Taiwan's firms must learn to survive in the narrow space between the first-comers (well-known brands from Europe and the US) and pursuers (low-priced competitors from China). As a consequence, close cooperation, cohesiveness, continued improvement, willingness to change and upgrade, and innovative R&D will continue to be necessary if firms hope to keep providing value, staying on top of trends, and maintain Taiwan's as the world's leading manufacturer of high-end bicycles. 