

# In High Gear

Taiwan's commodity-cycle industry has given way to a cluster of high-end manufacturers whose exports challenge the world's best. *By Joyce Huang*

**T**AIWAN'S COMPUTER AND electrical-parts sectors have been scrunched in the global downturn, with shipments falling by a third. One export industry, however, has remained buoyant: bicycles.

Over the last five years the island's high-end cycle business, both frames and componentry, has boomed and now is competitive in markets worldwide. This reflects a concerted push led by a loose home industry consortium called the A-team. And Taiwan is extending its production prowess to a lifestyle campaign that has doubled the number of recreational riders since 2006 to well over 700,000.

The symbols of this effort are King Liu, 75-year-old founder and chairman of Giant Manufacturing and the father of Taiwan's cycle industry, and his CEO, Anthony Lo, 61. Both have taken up the sport themselves only in recent years but now are the pride of promotional pelotons. Lo led 32 A-team executives to completion of an 11-day island tour a year ago, and Liu, who did the same in 2007, is finishing a 20-day, 1,668-kilometer May ride from Beijing and Shanghai to tout cycling.

"Taiwan is now a supply and R&D center for the world's high-end bicycles. And no other place in the world can compete—not even close," boasts Lo, who joined Giant a year after Liu founded it in 1972.

Taiwan last year exported \$1.4 bil-

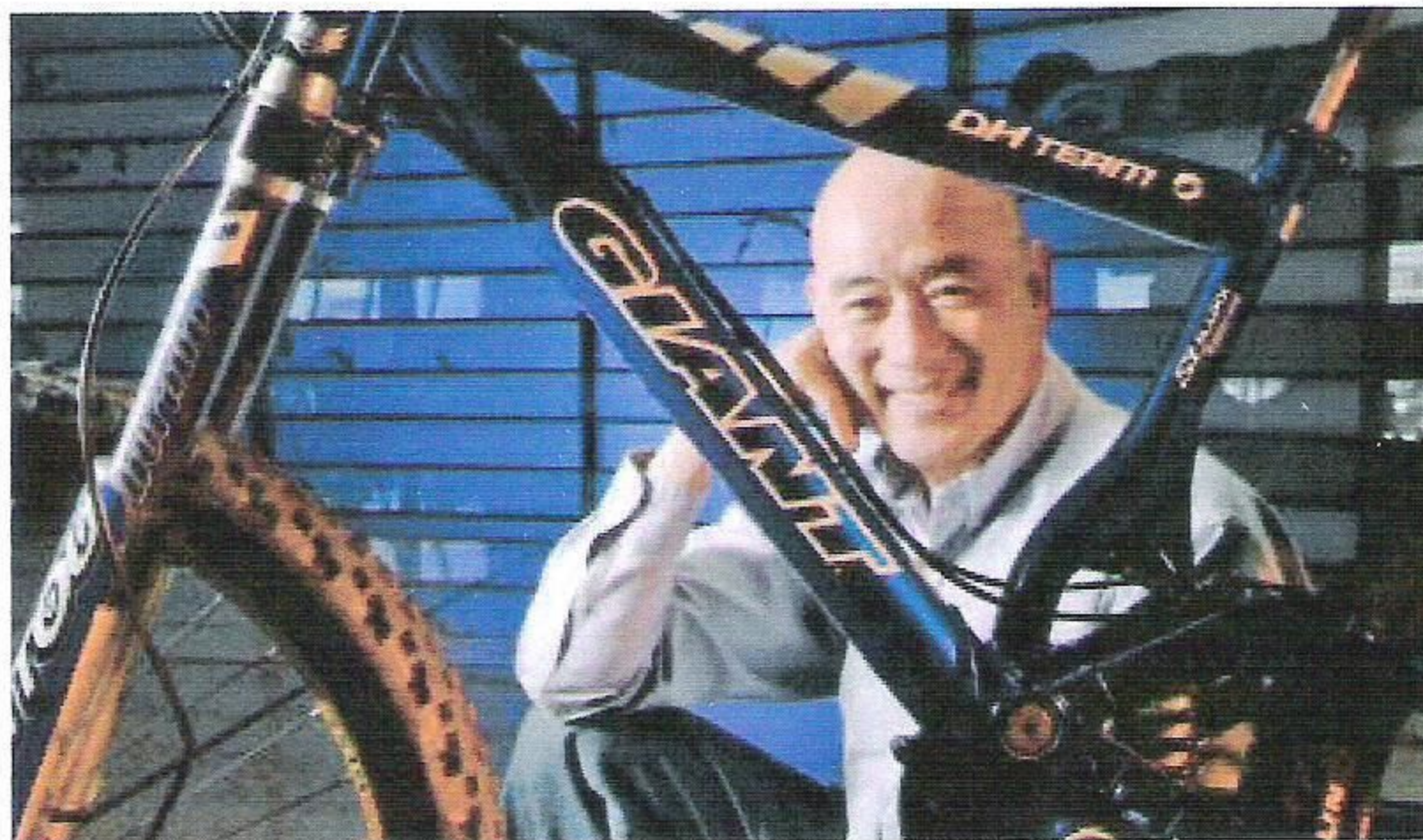
lion in bicycles (and sold 10% more at home), plus \$550 million in parts. That total has tripled from when the A-team was formed in 2003. At that juncture what had been a 30-year run (spearheaded by Liu) in manufacturing lower-end bikes was running down. Mainland China simply was able to beat Giant and other Taiwan makers at the commodity end of the trade, and now has 60% of its units sold in big-box retailers around the world. The Taiwanese instead needed a footing in the lightweight, precisely geared machines that sell for \$700 to \$2,000 in specialty shops to a growing clientele of global enthusiasts.

Today Taiwan has roughly two-thirds of that upscale market, by unit volume, even if it is not yet at the super-

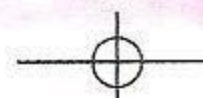
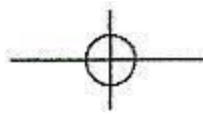
high end held by the likes of Colnago of Italy and Trek of the U.S. Taiwan makes often sell under the Giant brand or that of rival Merida, or under various foreign labels (including Colnago and Trek) that source models to Taiwan. The domestic industry's 660 companies, clustered in the center of the island a distant pedal from Taipei, employs 15,000. That's not one-tenth as big as the island's workforce in laptops and flat screens, but cycles have proved to be sturdier fare since trade got sucked into the financial vortex of 2008—and with gross margins exceeding 20%.

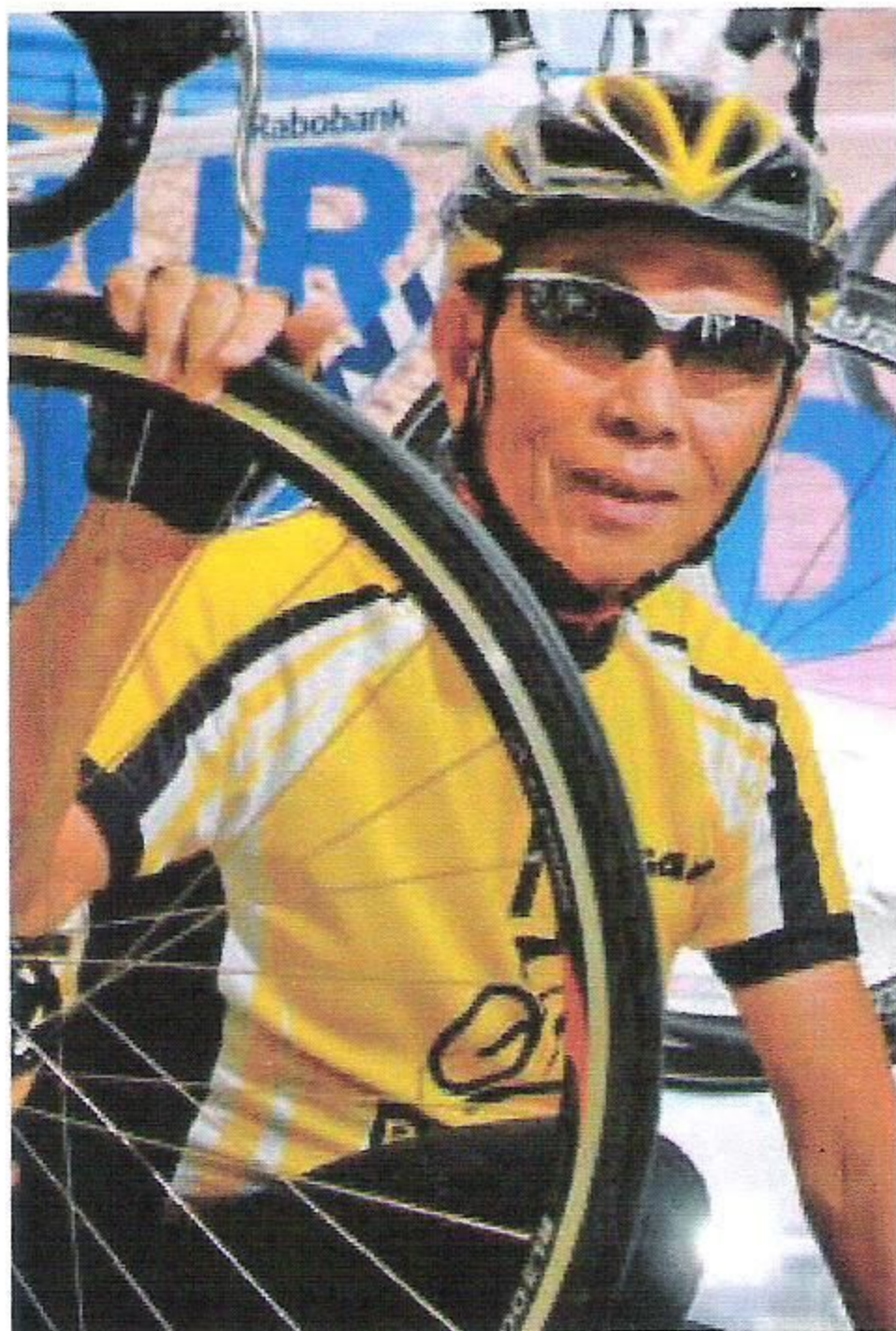
Last year exports grew 32% in dollar

**Giant CEO Anthony Lo got things started with Schwinn long ago. He would lament so few local riders. Today's Taiwanese tackle Taroko Gorge.**



DAVID HARTUNG / ONASIA.COM (LEFT); WWW.INMOTIONASIA.COM





**Father knows best:** King Liu founded the island cycle industry and at age 75, having belatedly taken up the sport, is the pride of the peloton.

production system with just-in-time processes to minimize inventory costs (including factory space) while cutting order fulfillment spans in half. A key supplier is closely held KMC Chain Industrial, which claims to be the world's largest bike-chain maker and is an OEM supplier to the global leader in cycle gearing, Shimano of Japan. Shimano rival SRAM of Chicago has moved manufacturing to Taiwan and joined up. (Folding-bike specialist Pacific Cycles, with its Birdy line, is elsewhere on the island and not part of the A-team.)

The group opened their assembly lines to one another and strove to hone manufacturing skills. "We've learned to work as one, picking fights as a team" against international competi-

terms, to an off-the-docks average of \$257 per bike, up from \$98 a unit in 1999. Of those export revenues, 60% came from Europe, with the U.S. and Japan accounting for most of the rest.

Giant's sales reached \$1.23 billion in the latest fiscal year, up 25%; Merida Industry (which owns 36% of the U.S. brand Specialized) recorded \$363 million, up 22%. Both are soundly profitable.

The A-team entails a commitment by the two industry leaders plus 19 other cycle and component makers to a Toyota-like

tors, says Yang Ying-ming, chairman of the Taiwan Bicycle Exporters Association and of tire supplier Kenda Rubber Industry.

The A-team is supposed to set a standard for the rest of the sector companies. The emerging result is a reputation for cost-effective production of even small-batch orders for city, mountain and road bikes (even racers) that use lightweight carbon fiber and aluminum alloys.

"What Taiwan makes are high-quality bikes in terms of welding, painting and attention to details," says Jay Wolff,

general manager of Helen's Cycles, a popular southern California dealer. He contrasts that work with what goes into imports from China or Vietnam, though that still leaves plenty of room to reach the apex.

The ride to A-team stature has been full of climbs and valleys for the sector that King Liu opened up in 1972 after a typhoon wiped out his eel-breeding business. Shortly after that he recruited Lo, a National Taiwan University business grad, from a trade association.

Through four loss-making years the pair would carry a bike model around the world seeking an outsourcing deal. Lo listened to a lecture from executives at Schwinn, then the dominant U.S. brand, about how to win an order. It was not long after (in 1978) that he signed a deal that commenced a 14-year OEM relationship that put Giant on the map as a supplier.

Relations between the two Giant execs were almost like father and son. "A dreamer with a lot of ideas," Liu would describe Lo. Of late, the roles have somewhat reversed: Lo is the hands-on operations boss, while Liu has become the spokesman for a cycling lifestyle.

The Schwinn deal by 1980 made Giant the second-biggest Asian cyclemaker. It began branded sales in 1985. By 1991 the first phase of Taiwan's bike production peaked at \$1 billion in exports.

That was when the mainland push began to cut the bottom out of the basic-bike business. It would fall by half in about a decade, prompting Liu and his ilk to try for the A-team upgrade.

"High-end bikes at more affordable pricing," is how Lo puts the strategy. He acknowledges he agonized a bit over the initial push upmarket, "but I couldn't

## BIKING'S BIG-NAMES SOURCE MODELS FROM TAIWAN



CANNONDALE



COLNAGO



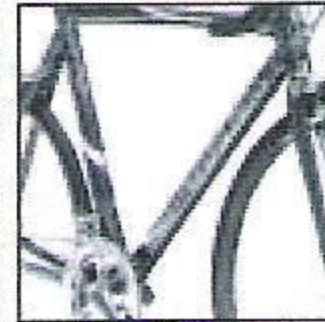
FUJI



SCOTT



SPECIALIZED



TREK

show it" when facing worried employees and suppliers. By luck the leap coincided with a general economic boom and, more lately, a preference for non-fuel-burning transport.

Now as elsewhere in Taiwan's economy, hope is expressed for greater coordination with Chinese counterparts in order to share in a huge market. An important part of that is a marketing appeal to encourage more upscale main-

land cyclists (counterfeit Giant and Merida bikes are popular there, an omen of success).

Two-wheel tourism is growing in Asia overall and the sport has caught on in the A-team's backyard (*see box*), although Taiwan is unlikely to become the new Italy: A Taipei travel agent sees little hope among a group that comprises half the visitors to the island: "The Japanese do not ride bikes for fun."

But plenty around the world do, and their numbers are growing. The A-team wants to be their producer of choice.

Lo can be excused some triumphalism. "Now that we've rewritten history, we've survived," he says. "And the entire sector has been completely reborn." Although, in this field especially, it pays to watch your back, where some erstwhile eel-breeder and his wingman could be gaining on you. **F**



## ON THE HOME FRONT

Taiwan's cyclemakers want the island to become a new mecca for recreational cyclists. Today such a holiday is more likely to include pedaling amid Dutch flower gardens or vineyards in France or Italy.

Although Lai Kuan-hua is a celebrated racer in Asia, Taiwan has no Lance Armstrong to carry the flag at the big events in Europe and America. But it does have a population moving up and out in its riding enthusiasm. Giant and Merida shops push excursions. Courses such as around Sun Moon Lake in central Taiwan or Longpan Park in the south (pictured above) are in place, bike stands are adjacent to Taipei MRT stops and a 2,000-kilometer trail is to be laid around the island within four years.

Meantime some Taiwanese travel abroad, most easily to Japan, in search of a "velo" vacation. One Taiwanese tour group, tooling along cherry-blossomed roads this spring in Oita Prefecture on Kyushu, professed to a guide they'd never felt such *shiwasei* (sense of happiness) in their lives.

The local passion is a shift. "Taiwan has been a stronghold for the world's bike manufacturing industry for years. But people in Taiwan hardly rode bikes. Don't you find that odd?" asks Giant CEO Anthony Lo. Now that he himself, contending with high blood pressure and cholesterol, is regularly among the pack ... well, he might excuse the other latecomers. —J.H.