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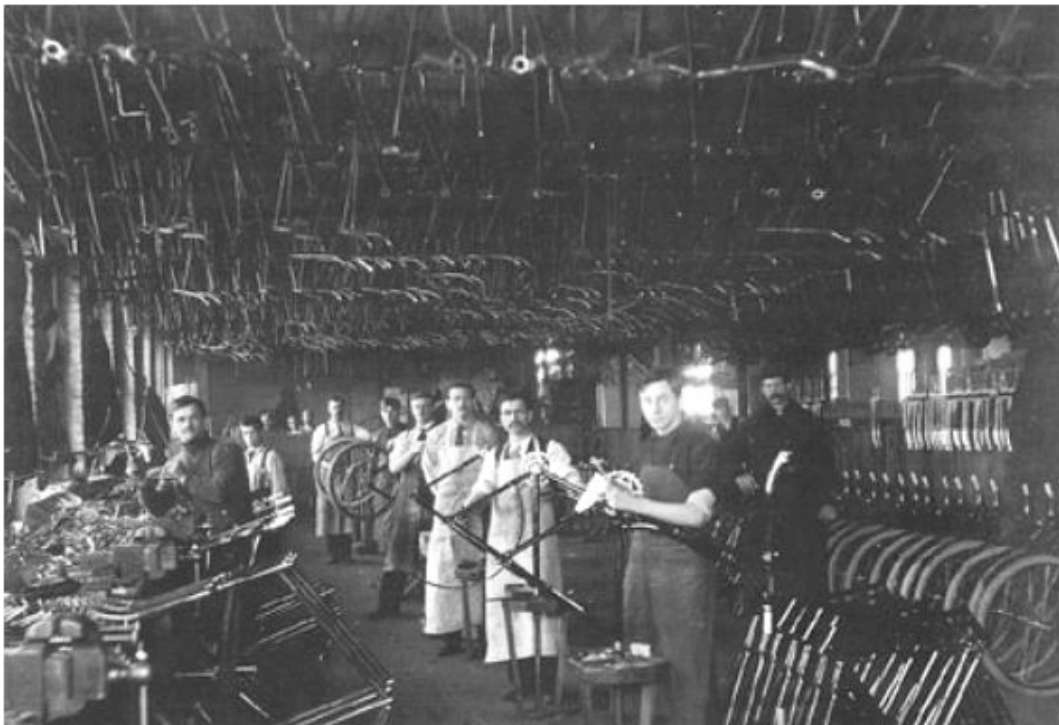
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Arnold, Schwinn and Company, Chicago, IL

In the late 1880's Ignaz Schwinn was working in a machine shop making components for high-wheelers (also called Penny Farthings because of their giant front wheel and tiny rear wheel) in Germany. In 1889 he jumped on the diamond frame bandwagon and convinced local manufacturer Kleyer Bicycle Works to begin building Schwinn's own design of diamond frame. The Schwinn design was a success and Ignaz was put in charge of the planning and building of a new factory for the bike. He was 29. Two years later Ignaz Schwinn was on a boat for America.

The restless young Schwinn went to work on Fowler bicycles at Chicago's Hill Cycle Manufacturing Company. Then he spent two years building a bicycle factory for International Manufacturing Company. In 1894, Ignaz Schwinn met Adolph Frederick William Arnold, a German born investor who had made his fortune in the Chicago meat packing industry. Arnold knew a craze when he saw one and Chicago was ripe. By 1897, an estimated 1 in 7 Chicagoans owned a pair of wheels. America had 300 bicycle manufacturers, but as many as 2/3 of the bikes made in this country were being manufactured within 150 miles of Chicago. This was America's first bicycle boom.



INSIDE THE SCHWINN FACTORY, CHICAGO, ILLINOIS (circa 1895)



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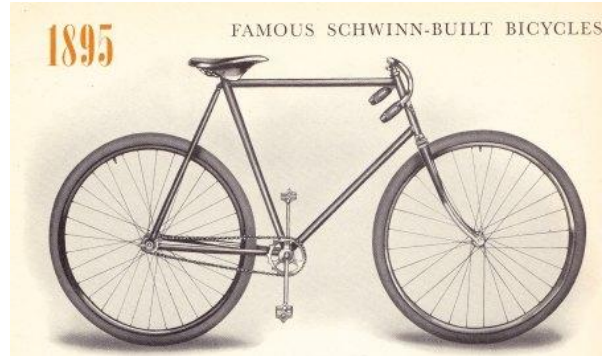
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Arnold, Schwinn & Company was incorporated in the fall of 1895 and located at the northwest corner of Lake and Peoria amidst a sea of competition just west of downtown Chicago. Schwinn wanted to produce the most advanced bikes possible. He wanted racing bikes and he wanted Schwinn teams to win all the most popular races. Arnold, Schwinn & Company made excellent racing bikes. But there was more. Schwinn quickly came out with a bike for every purpose and price range. Ignaz's knowledge of the market served the company well.



By 1898 Mass production and growing competition brought the price of a bicycle down to as little as \$20. In 1902 the best racing bikes were priced around \$150. At the turn of the century Americans were consuming about a million bikes per year. But it didn't last.

Unfortunately for bike manufacturers, the same innovations that brought the costs of bikes down also made the automobile increasingly accessible to the growing middle class. The first decade of the new century saw the car tear the bicycle industry to shreds. Bicycle sales fell to 250,000 by 1905.

Bike makers, buoyed by improvements in manufacturing that continued to bring costs down, turned their attention to the kids' market as their parents bought more and more cars. Children were largely the focus of the bicycle industry for the next several DECADES. It wasn't until the advent of the Schwinn Varsity in 1960 that Schwinn really began to take seriously the adult market once again.

1907 saw Arnold, Schwinn & Company produce an impressive 50,000 bicycles, but the market was in tatters and profits were small. Adolph Arnold bailed in 1908. Ignaz Schwinn bought out his partner and continued to expand the company right through the decline. Schwinn's attention to quality had earned the company a solid reputation. As the number of American bicycle manufacturers reportedly dropped from a peak of 300 to around a dozen, Schwinn thrived.

Arnold, Schwinn & Company began experimenting with the horseless carriage (automobile) as early as 1896. They continued building prototypes through 1905, but



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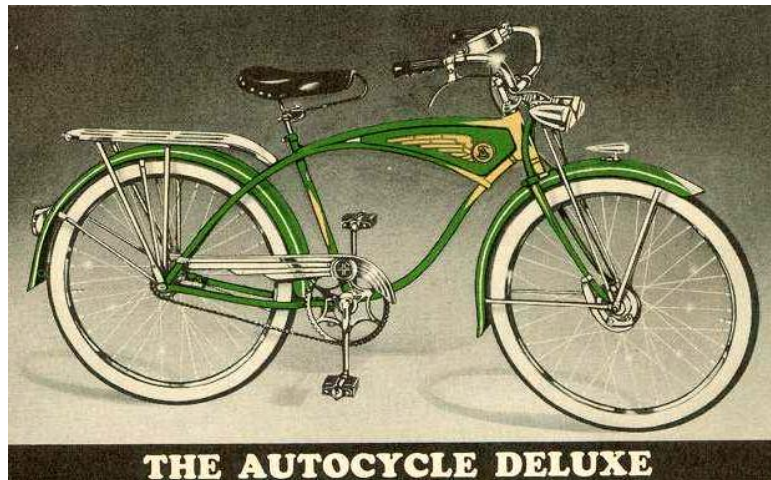
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nothing was ever put into production. Ignaz put his engineers to work designing motorcycles. Rumor has it that revolutionary designs were almost entirely complete when Excelsior Motor Manufacturing & Supply Company of Chicago declared bankruptcy.

In 1911 Schwinn paid a half million dollars for the struggling Excelsior and started building motorcycles. The Excelsior did well and in 1914 Schwinn built the largest motorcycle factory in the world right in the middle of Chicago. In 1917 Schwinn purchased the ailing Henderson Motorcycle Company of Detroit and moved it to Chicago. Schwinn was suddenly ranked among Harley-Davidson and Indian in motorcycle manufacturing. They were the third largest motorcycle manufacturer in the country. Bicycle sales became an afterthought for Ignaz Schwinn.

The 1920s was not exactly the decade of the motorcycle, but Schwinn did well enough. Unfortunately he also did plenty of speculating on the stock market. Schwinn and company were hit hard by the crash of 1929 and by 1930 Schwinn had combined their R&D departments for bicycles and motorcycles. It didn't help. The Great Depression looked very bleak as the American economy came to a grinding halt. With shrinking margins and no prospective buyers in 1931, Excelsior-Henderson simply ceased production. Ignaz, 71, retired. Or rather, Ignaz Schwinn, German immigrant and bicycle mogul slowed down about as much as he was able to tolerate. His son Frank W. began running the daily operations as Vice President, but Mr. Schwinn continued to have final say on major investments. Ignaz was the public image of Schwinn and he retained the title of President for 17 more years.



Frank W. Schwinn, 36, turned his attention back to bicycles. Manufacturers had become little more than middlemen, assembling components as a bike made its way from parts makers to the big department stores. Most bikes carried the name of the retailer rather than the manufacturer. At one point, Schwinn was putting more than 100 different head badges on their bikes. Bicycles had become toys and the department stores selling these toys merely asked for lower costs. Moreover, children did not demand performance in the way that their parents had. Cost cutting became the rule, rather than



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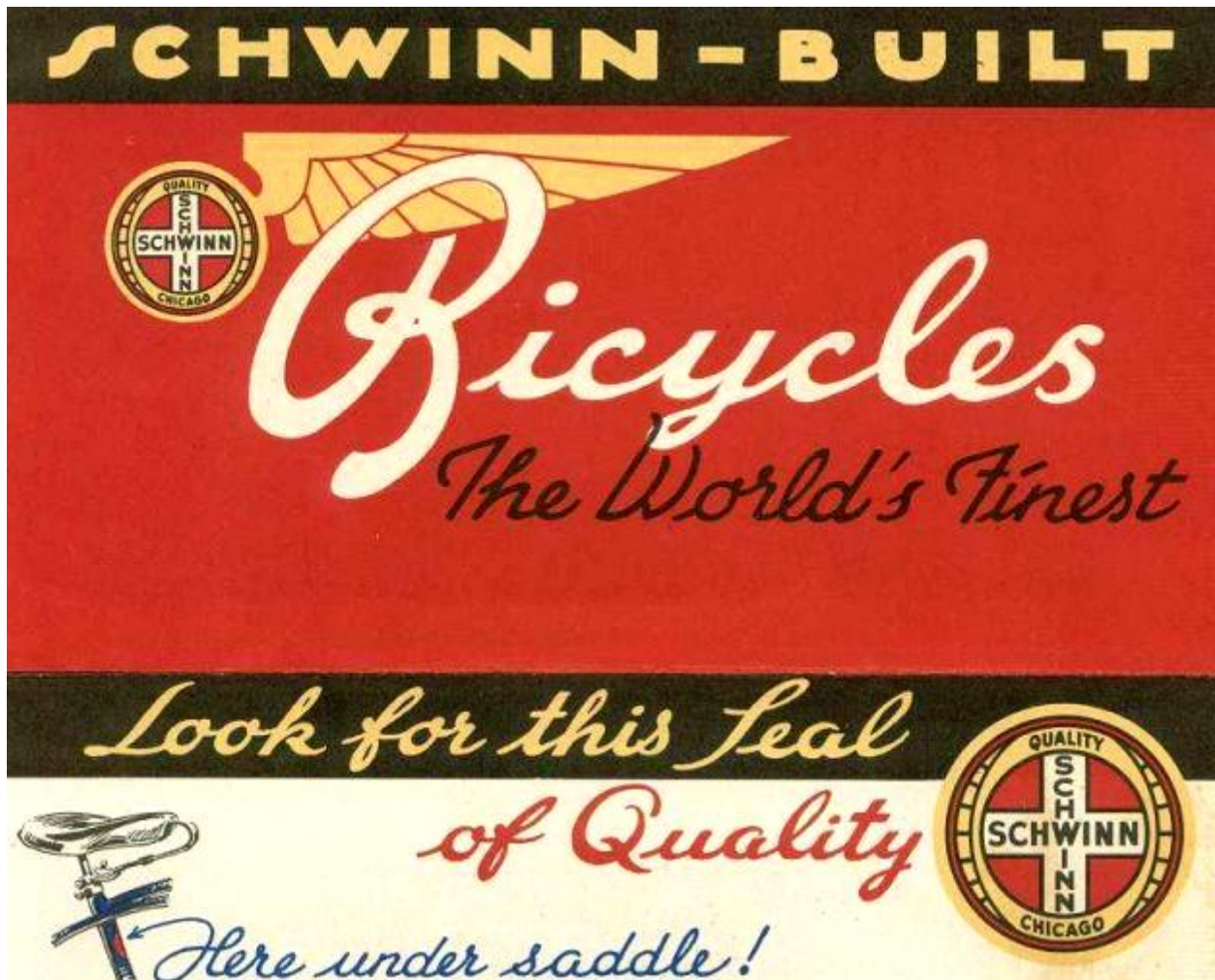
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innovation. Ignaz didn't make toys and Frank W. didn't want to. Besides, Schwinn had idle motorcycle engineers to put to work. They came up with a wider tire (actually, they borrowed it from Germany where the "balloon tire" was taking on cobblestone roads quite successfully).



As the bicycle industry crumbled under the weight of the Depression, Schwinn forged on ahead. Frank W. successfully played suppliers off of one another in order to get someone (Firestone) to make rims that would fit a wider tire. And he had to order enough tires (10,000) to make it worth Fisk Rubber's time to make a custom 2 1/8 inch wide balloon tire. Frank W. was determined. Schwinn released the first balloon tire bikes in 1933, a tire that could roll over broken glass without a thought. In 1934, the Schwinn Aero Cycle—designed after an airplane fuselage—had a tougher frame and cost double



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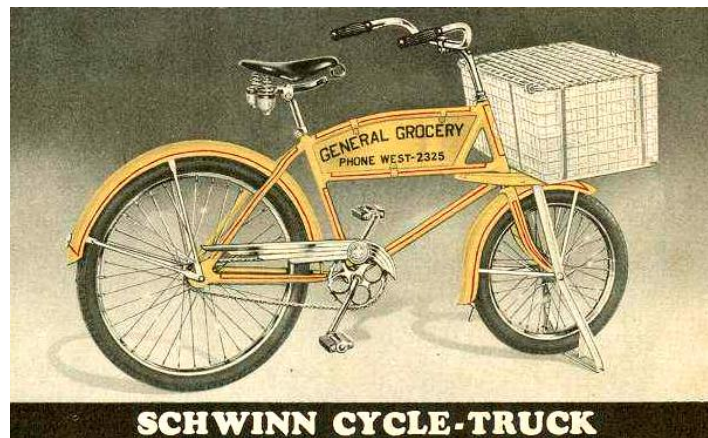
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what the competition was charging. Furthermore, it was designed as a thing of beauty. Its styling (a word not used when discussing bicycles up to then) made bicycle esthetics as much of a selling point as performance. The department stores, where most bicycle sales took place, wanted nothing to do with the high-end ride. Schwinn got the Chicago Cycle Supply Company to distribute the new bicycle and told them not to sell to the department stores.

Frank W. was looking ahead. He had grand ideas for bicycles and he planned to lead the way. He gave the underdogs something exclusive. Schwinn gave the independent dealers-used to getting the scraps from the department stores-something the mass merchant sellers didn't have access to. And they returned the favor in spades. In 1932, the industry put out 194,000 bicycles into the U.S. In 1934, Schwinn sold 86,000 units by itself. In 1935 Schwinn put out 107,000 units. Schwinn broke 200,000 in 1936. Schwinn began fostering relationships with independent dealers, something that would bring impressive sales, but it would also help carry Schwinn through the lean times. And by the 1940s, production had reached almost 350,000 units annually. Schwinn had breathed new life into an old product.



Schwinn wanted to be the first quality. They used better steel and electric welding. They added 40 patents to their collection during the depression. The Schwinn brand began to stand for something in an industry where the manufacturers rarely got to put their own name on the bike. Customers began asking for Schwinn. And those that couldn't afford the high end models picked the more affordable Schwinn over competitive offerings because of the Schwinn name. The Schwinn brand carried weight that the department stores like Sears and Montgomery Wards could not give to their "toys."

Distributors were forbidden to sell to mass merchant department stores, but Schwinn never said it wouldn't do so directly. Schwinn had a good relationship with B.F. Goodrich for many years even though the auto parts retailer often sold the bikes at a loss in order to drive customer traffic into their stores.

In the late 1930s Schwinn took virtual control of one of its distributors who was going through a financial crisis. Schwinn streamlined the operation and got all of the distributor's bicycle dealers in order. By the time all of the issues had been worked out,



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Schwinn was reticent to let go of the arrangement. Dealing direct with retailers allowed Schwinn to cut prices while earning them (both) higher margins, but most important, it gave Schwinn a finger on the pulse of bicycling in America. Schwinn began to take every retailer that wanted to peddle bikes, even the ones that were still selling lawn mowers. When there was a problem, Schwinn quickly found out about it and corrected it. When the market shifted, the retailers demanded new products and Schwinn got them there first. Schwinn moved that much closer to the customer and it made all the difference.



Schwinn designed bikes that people would want to ride. There were fast followers to be sure. Huffman (Huffy) and Columbia were quick to jump on the balloon tire bandwagon, but the imitators were copying bikes that seemed to be selling well. Schwinn knew why their innovations were selling well and consequently Schwinn was better at promoting their bikes. Possibly the most important demonstration of Schwinn's

commitment to customers was the 1939 introduction of the lifetime guarantee (industry standard was a single year). This move, more than any other, made retailers want to show off the Schwinn name. A bicycle with a Schwinn head badge sold better than the same bike with the retailer's own head badge.

In the midst of the 1930s, Frank W., enjoying the impressive success of his balloon tire bikes for kids, decided that he could get adults back on bicycles too. He employed famed bicycle racing mechanic Emil Wastyn and his son Oscar to design the ultimate racing bike. Sparing no expense, the Wastyns used the best materials and the best components to bring into being the Schwinn Paramount. Schwinn put the Paramount to work on the racetrack in 1938 and it quickly rose to the top of the sport. Frank W. released a number of other lightweights hoping to follow the path of his father, Ignaz, who had successfully sold bicycles through the promotion of racing.

Schwinn Paramounts won many races. On May 17, 1941, Alfred Letourneur went 108.92 miles per hour on a Schwinn. The bicycles were everything that Frank W. could have hoped for, but the touring craze was not to be. The Paramount was never a very profitable product and touring did not catch on the way it had in the gay 90s of the last century. Just as Schwinn was getting going, World War II put heavy strains on steel and



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rubber construction. Also, the automobile continued to take up more and more space in the garage. Americans just weren't ready to get back on a two-wheeler.

In the months before Pearl Harbor (Dec 7, 1941) the Schwinn factory was already working under military contract making items unrelated to cycling. In 1942 Schwinn ceased commercial bicycle production all together (though the military ordered some 10,000 bicycles per year). Their reputation for innovation continued as they brought lessons learned during the lean times of WWII back to the bicycle industry following the war. In 1947, Schwinn produced 400,000 bicycles.

Another innovation of import came along during WWII, but not through the efforts of Arnold, Schwinn & Company. A small engineering company in L.A. put a little four-stroke engine on a heavy duty bicycle frame and called it the Whizzer. The motorized bicycle got 125 miles to the gallon and quickly became a popular mode of transportation for the gas conscious country. And it just so happened that Schwinn's patented cantilever frames gave the motors exactly the space they needed. By 1948 the little Whizzer was selling 200,000 units, many of which used Schwinn frames. It also happened that a certain Ray Burch was Vice President of the growing company.

Ignaz Schwinn died in 1948 of a stroke at the age of 88. He had stood at the helm of the great American bicycle company for more than 50 years. As sole owner of Arnold, Schwinn, & Company he was able to bequeath a 1/3 share of the dividends to Frank W. and each of his two daughters. But he left all shareholder powers to his firstborn son and indicated that Frank should do likewise.

In many ways 1948 was one of Schwinn's best years. It was the last year the Schwinn manufactured a bike for someone else to label. The Schwinn name stood for quality. Department stores sold toys. Each Schwinn came with a lifetime guarantee unlike anything else in the industry. Schwinn finally had the clout to walk away from the department stores entirely and seek out quality bicycle retailers. The move only strengthened the brand.

In 1950 one in every four bicycles sold in the U.S. was a Schwinn. Almost every movie, set in the 1950s and containing a bicycle, features a Schwinn bicycle. And if the director is particularly nostalgic, it's a Schwinn Black Phantom. The legendary Black Phantom was released in 1949 and represented the height of the children's luxury bicycle. It was the Cadillac of the bike world, but built like a tank and ready for curb jumping. Schwinn was producing 400,000 bicycles per year. As a private company, Schwinn was not obliged to make public its balance sheet, but former executives estimated sales in the area of \$25 million a year, making Schwinn a respectable mid-size company in the 1950s.



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But it wasn't easy. Walking out on department store distribution meant hawking bikes out of every outlet Schwinn could find: auto dealerships, gas stations, pool halls, and funeral parlors. Such fragmented distribution meant that Schwinn still had almost no say in how their bikes were sold, how customer complaints were handled, or how many models a seller carried. With 15,000 outlets, monitored salesmanship was a pipedream...until George Garner got out of the Marines (more on Garner later).



Frank W. had been impressed by advertising strategies used by Whizzer and in 1950 hired Vice President, Ray Burch, away from the now struggling company and put him to work as Schwinn's sales promotions manager. Burch, in turn, put Bill Chambers, Dealer Relations Manager at Schwinn, to work wading through a mess of records from Schwinn's distribution network. Weeks of work showed that a mere 27 percent of Schwinn's retailers were responsible for 94 percent of sales. Chambers had discovered that Schwinn could afford to fire almost three quarters of their distribution network with only a small impact on the bottom line. Distribution costs would plummet. Chambers set out to find who was selling Schwinn's and why.

While most of the bicycle "shops" in 1947 were dingy, greasy places operated in alleys and garages, George Garner's shops were clean and brightly lit. His employees wore clean white smocks. While many bicycle retailers on Schwinn's distribution lists were really hardware stores (or even barber shops) that also sold bicycles-just like the department stores that didn't have time to sell a Schwinn's finer points-Garner sold only bicycles. He went out of his way to fix customer problems. His Southern California bike shops stood out and so did sales. In 1950, Schwinn sold 510,000 bicycles and George Garner's shops were Schwinn's number 1 sellers. Garner held the spot for 17 consecutive years and it brought about one of Schwinn's most important innovations, the Authorized Dealer program, something Frank W. had set his sights on more than a decade previous.

Ray Burch stopped by one of Garner's shops in 1956 to see what made the little business so good at selling Schwinn's. Burch found clean shops with well displayed Schwinn bicycles and only Schwinn bicycles. That was it. That was all it took. Garner's employees/mechanics were well trained and polite, but they said very little. The bike and the shop were evidence enough to show off the quality and justify the prices. Garner let the bikes sell themselves.



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Schwinn chopped its distribution network down to just a fraction of its previous total. Authorized Schwinn dealers had to dedicate at least half of their sales floor to Schwinn. Since Schwinn could decide who got their bikes and who didn't, the company rewarded the best sellers with location exclusivity. Schwinn mandated service standards and layouts. The company approved store locations. Schwinn



began "managing" these sellers in much the same way that a corporation manages its franchises ...and got sued by the Department of Justice for price-fixing and restraint of trade in 1957. The case lasted for an entire decade. It went before the Supreme Court. It gobbled up time and resources. Frank W. kept right on purging his distributor network of costly retailers.

The purge took as long as the legal debacle. BF Goodrich's automotive and appliance stores were responsible for as much as 25% of Schwinn's sales at times throughout two decades that began in the Depression. But Goodrich sold Schwinn's as a loss leader to get people into the store to buy appliances and car tires. Goodrich employees were not trained to properly assemble or display the bikes and the competition was hurting authorized dealers. Schwinn eliminated Goodrich's 1,700 locations from their retail network in 1962. From 15,000 possible retail outlets in the early 1950s, Schwinn was down to just 3,000 in 1967. The winnowing halted at around 1,700. At the end of the 60s, Schwinn had just 22 regional distributors to keep in line.

Schwinn sent George Garner (ex-marine) on tour. The company was humble enough to learn from Garner's trench perspective and savvy enough to spread him around. Garner was Schwinn's leading PR tool in creating the "Total Concept Store." He was their example to the mom and pop operations on how to sell Schwinn bikes. But he wasn't their only piece of propaganda. The "Total Concept Store" had many converts. Dealers spent an average of \$40,000 to overhaul their shops and Schwinn proudly showed off the success stories. In 1963, 48 dealers were members of Schwinn's 1,000 Club. These dealers had sold 1,000 Schwinn's in a year. But as more and more bike shop owners joined the ranks of the middle class another 400 dealers joined the Club by 1968. The average Schwinn dealer was grossing \$100,000 in sales.

Beyond building one of the highest quality rides around, Schwinn offered tons of support to their authorized dealers who adopted the "Total Concept Store." They were, of



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course, walked through the remodeling process, but dealers were also provided with unmatched training and assistance programs. Schwinn provided shops business analysis, group rate medical plans, and retirement investing.

Schwinn supported sales with strong advertising, using stars such as Bing Crosby, Rita Hayworth, and Ronald Reagan in the 40s and Georgia Governor Lester Maddox and actress Carol Channing through the 70s. Captain Kangaroo touted Schwinn's to the under six crowd while the annual Playboy Playmate of the year drew attention from adults. Schwinn suggested scripts for local radio commercials.

In 1959, Schwinn was operating a traveling mechanics' workshop allowing their dealers to claim that a "factory trained mechanic" was on duty. This kind of work paid off greatly. Schwinn dealers were more qualified to sell Schwinn's. They really knew what they were talking about and became adept at "selling" the benefits of Schwinn's latest offerings to the public. More than that, Schwinn's traveling sales school showed dealers how to close a sale and how to explain the differences between Schwinn's and competitive offerings. They also taught about things like inventory management. By the late 1970s approximately 3/4 of Schwinn's authorized dealers were selling exclusively Schwinn bikes.

1960 saw the introduction of the first Schwinn road bikes, the Varsity and the Continental. This was an important moment for the cycling world, but its significance was slow to be realized.

Frank W. Schwinn died on April 19, 1963 at the age of 69 from prostate cancer. The third president of Arnold, Schwinn & Company was Frank Schwinn, Jr., or Frankie V.

This was also the year that Schwinn introduced the incomparable Sting-Ray. West coast kids were putting "Texas longhorn handlebars" on old bikes in the style of the chopper motorcycle. Schwinn gave it smooth tires and a banana seat with a sissy bar. It was a grotesque distortion of the typical ride, even for a kids' bike. It was an immediate and unqualified success. When sales of 10,000 of a particular model was a big year, Schwinn sold 45,000 Sting-Rays by the end of 1963. They couldn't keep up with demand.

The Sting-Ray's smooth tires were perfect for skid outs. The smaller rims made wheelies easier. And the durable Schwinn's could still take a curb or even a homemade jump. Copycats caught on quickly and "high-rise" bicycles accounted for more than half of all bicycle sales during the mid-60s.



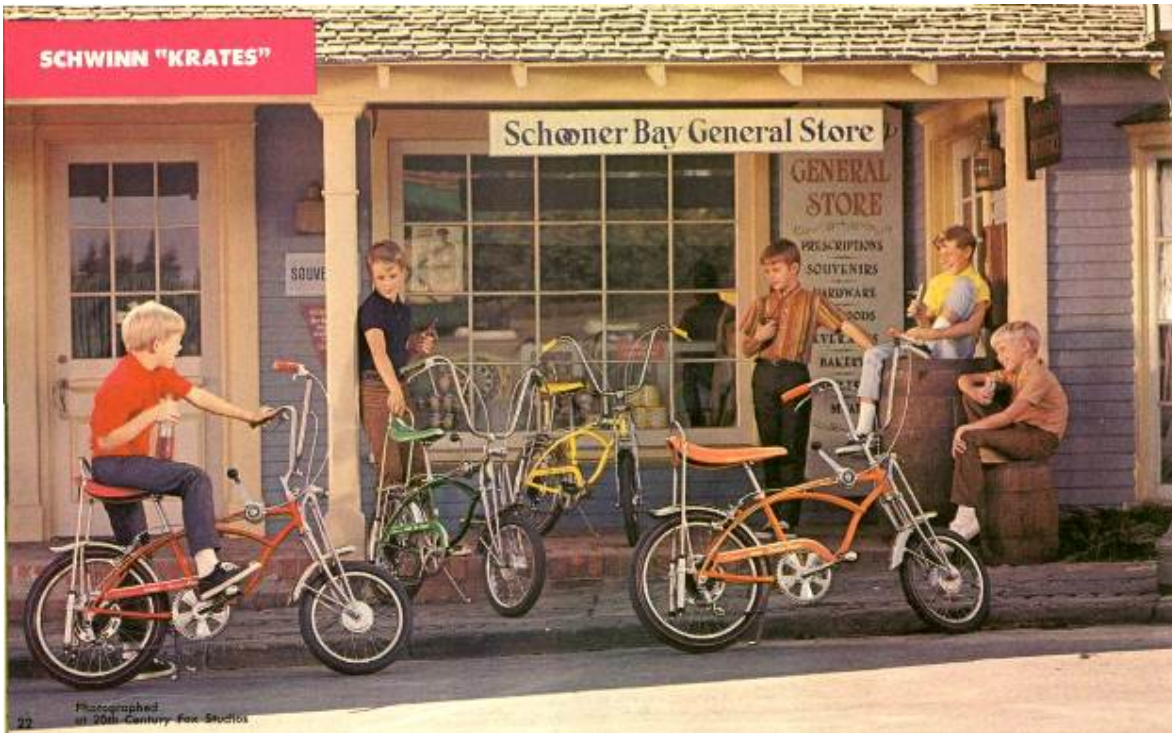
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In 1968, Schwinn sold 1 million bikes in a single year. Things looked good. Things looked amazing. But they weren't. Schwinn had lost part of their antitrust suit against the Department of Justice in 1967. The Supreme Court had ruled that Schwinn could not sell product to a distributor and then determine to whom the distributor could resell the product. Schwinn sidestepped the ruling. Within the week Schwinn was its own distributor and they kept right on going.

It was around this time that Frankie V. dropped the Arnold from the company's name. He cut back on research and development and gave the spoils to sales and marketing. The new distribution warehouses were taking up resources as well. While the numbers looked better than ever, Schwinn was no longer investing in the future.

Schwinn's "lightweight" road bikes finally began to make headway as the 60s became the 70s, led by the Varsity and the Continental (both started life as 8-speeds). The original "ten-speed", the Varsity was targeted at 12-14 year olds and it was Schwinn's first derailleur bike that sold in significant numbers. Like the Sting-Ray before it and the balloon tire before that, the Varsity ushered in a new era in cycling. Rather, it marked a return to cycling as real transportation. The ten-speed's narrow wheels, drop handlebars, and hand brakes were designed for speed and distance. Adults, once again, had practical two-wheeled transportation, and the industry shifted again.



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Maybe it was the fitness craze of the time. Maybe it was Sting-Ray riders growing up. Maybe it was the price of gasoline or the growing environmental movement. Whatever it was, the early 70s was host to an amazing bicycle boom. Everyone wanted back on the almost 200 year old invention. The bicycle outsold the car for the first (and last) time in decades. Everyone did well, including Schwinn. Almost 7 million bikes were sold across the country in 1970. In 1971 Schwinn sold 1.2 million bicycles by itself. At the height of the boom in 1973, the industry pumped more than 15 million new bicycles into America.

The Varsity sold extremely well throughout the 1970s bicycle boom, but what the masses really wanted were European racing bikes. The Europeans (and the Japanese) had been making high quality lightweight bicycles for years and had managed to develop some cache in the states. While the Schwinn Paramount was still a very high quality ride, it was American made and nothing American made was given much respect at the time.



George Garner sold 10,000 bikes in 1972. Schwinn was building 6,000 units every day. To say that Schwinn was stretched was an understatement. Most of the bikes they were making were already sold. Quality suffered in the rush to meet demand. And the market opened up to anyone that could get a bike into a retail shop. Foreign brands poured in-the English Raleigh, the French Peugeot, the Italian Bianchi-and began winning over the hearts and minds of the American consumer. Schwinn itself began importing bikes from Japan in 1972 and slapping the Schwinn name on them. The Le Tour was the first Schwinn road bike that stood a chance against the European competition and it sold well

enough. But it sent a signal to Schwinn loyalists, if the Japanese could make a bike good enough for the Schwinn brand, perhaps the Fuji was a decent bike as well. And maybe these other foreign brands deserved a second look. The bike boom gave several brands a strong foothold in Schwinn territory.

At the height of the boom in 1973, 15 million bicycles were sold in the United States. In 1974, Schwinn sold 1.5 million bikes. In 1975, that number dropped to 900,000

Schwinn had spent decades building a reputation for quality, and in the kids' realm, quality meant durability. And durability meant heavy. And heavy meant slow. The Varsity was up to 40% heavier than its foreign competition, a huge difference. After all, it



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had been targeted at 12-14 year olds. As Schwinn kids grew up, they wanted an adult ride. So, while sales and profits continued to increase because of the industry wide boom, market share was dropping. At the start of the boom, as many as 30% of the 10-speeds sold in the U.S. were Schwinn's. By the end Schwinn's share was less than 15%.

Construction of the Schwinn factory had begun around the turn of the century. New buildings had been created out of necessity and as new technologies were adopted. The result was a patchwork of inefficiencies. No continuous line of production existed at Schwinn. The result was that Schwinn could import bikes at lower costs than manufacturing them at home.

The market shift toward road bikes that Schwinn had helped engineer with the Varsity, left the American company behind. Schwinn was still building a bike to last while the lighter and faster competition was adopting new alloys and other modern technologies. Furthermore, Schwinn stuck with its vibrant red and blue color schemes while the rest of the industry moved on to more adult themes. The Schwinn brand, king of kids, did not translate into serious performance. The company had grown fat, complacent, and unwieldy.

In the midst of the 1970s bike boom, a new market was rising, bicycle motocross or BMX. Born of the Sting-Ray type high-rise cycles developed by Schwinn in the 60s and the motorized dirt bike, BMX was a "fad" that would last more than a decade and account for 1/3 of all bicycle sales in the U.S. in 1982, the year that ET was whisked to freedom through the suburban developments in the basket of Elliot's BMX (Trivia: Bob Haro donned the red hoodie as Elliot's stunt rider). Frankie V. thought BMX riding was a lawsuit waiting to happen. Schwinn waited until 1977 to build their first BMX bike, the Scrambler. It sold well enough, but was not well regarded among serious riders. The Schwinn Sting came soon afterward. The Sting featured a virtually handmade frame of chrome-moly. It was handmade because Schwinn did not have the manufacturing capability to produce chrome-moly frames in any other fashion. The company could put together only 1,000 Stings in a year.

Meanwhile, the 70s boom was good for everyone and Schwinn was doing fairly well with the Varsity, the European style LeTour, and their other road bikes. But they had left a gaping hole at the top end of the American made road bike market where the Paramount was languishing. Along came 23 year old African emigrant Bevil Hogg and partner Richard Burke. Burke bought Hogg's five store bicycle shop chain during the American bike boom, sold it soon after, and together the two started Trek in 1975 to fill the hole. Trek had a slow start as the boom years ended, but Schwinn left the little upstart alone for so long that by 1986, Trek was a respectable company that could



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demand discounts from suppliers who wanted to hold on to Trek as a customer. They started producing cheaper bikes and encroaching on Schwinn's territory.

The 70s was certainly a chaotic time for Schwinn. The American bike boom came on the heels of Schwinn's wild success with the Sting-Ray. The boom itself, while good for the whole industry, changed the way everyone looked at cycling. President Frankie V. had a heart attack in 1974 and that, coupled with his scars from the antitrust suit perhaps made the aging Schwinn more conservative. Schwinn let the BMX craze largely pass them by. At the same time, mountain bikes were evolving. Schwinn remained timid here too. Ed R. Schwinn, Jr. would become president of Schwinn in 1979. In the meantime he was taking over power from Frankie V. bit by bit. And where Frankie had merely favored the marketing department, Ed seemed to harbor an all out grudge against R&D and manufacturing. He saw the old crowd at Schwinn as a part of the problem and he set about cleaning house while mountain bikes took over America and the neglected high-end of road biking was filled by Trek.

Schwinn had begun selling a stationary bicycle in the 1960s in an attempt to flatten out a very seasonal sales curve. But not much happened on the exercise bike front until 1978. Al Fritz and Ray Burch had both been with Schwinn for decades and had largely taken on operations after Frankie V.'s heart attack. For one reason or another, Fritz managed to rub Ed, Jr. the wrong way. When Lindsay Hooper walked into Schwinn with an exerciser that got Fritz excited, Ed saw a way to rid himself of the old man. Schwinn created the Excelsior Exercise Company and made Fritz president. This effectively exiled the old timer to the Chicago suburbs. It destroyed Fritz's power base at the Chicago headquarters and sent a clear message to the rest of the suits. It helped Ed assume power the following year when Frankie retired.

Schwinn was selling more than a million bikes per year in the late 1970s, but these were children's bikes. The adult market was going to the competition. In 1980, Schwinn sold 900,000 bicycles (15% of the market). That was the year that the Schwinn workforce unionized. Management had lost touch with the factory floor. Before the end of the year, Schwinn's local 2153 was on strike. Management had stockpiled bikes after unionization and immediately stepped up foreign production when their workforce walked. The strike ended in four months with some modest gains for the workers, but a clear shift in strategy for the company as a whole. Production would not remain long in a place where it would be subject to union control. The new direction was clear when Schwinn called back only 65% of the strikers.

By the middle of 1981, Schwinn had a new plant open and operational in Greenville, Mississippi. Mississippi was a state that was less friendly to unions. This seemed the sole criteria for choosing the Greenville site. Skilled labor was scarce. It was a three



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hour drive from the Memphis airport. It was 75 miles from the nearest interstate. Parts from Asia took months to get in and out of the plant. Executives didn't want to relocate to Greenville.

In the late 1970s, Schwinn took note of a subculture that was to become mountain biking growing in Northern California. These kids were taking the old steel balloon tire bikes and trashing them on mountain trails. The kids called their rides "clunkers." Schwinn put out the abysmal Klunker 5 that didn't even have the strength to handle a curb. It was discontinued before the end of the decade. 1980 saw the introduction of the Schwinn King Sting, based on their popular BMX Sting. It featured a stronger chrome-moly steel frame, but cheap brakes, poor geometry, and too few gears to be useful on the topography of Mount Tamalpais in Marin County. In 1982, Schwinn modified the Varsity to accommodate larger tires and called it the Sidewinder. Again, the geometry was wrong and it was too heavy to appeal to serious riders. Meanwhile, the Specialized Stumpjumper (\$750) was priced at three times the Sidewinder and catapulted creator Michael Sinyard to the top of the market.

Schwinn's new Greenville factory, unlike the aging Chicago factory, could produce chrome-moly frames, but the factory was plagued with problems. It was managed from Chicago and the distance caused runs or surpluses of parts. Quality control was less than impressive. Dealers started canceling orders. The new factory never worked out its issues and never got out of the red. Greenville lost money every year that it produced bikes. Schwinn shifted most of its production to Taiwanese company, Giant, and closed the Chicago factory entirely in 1982. Nearly a century of American manufacturing came to a close. Another third of Schwinn's manufacturing went to Murray Ohio at their Nashville, Tennessee factory. Murray couldn't produce chrome-moly frames either and they turned out mountain bikes and antiquated road bikes that nobody wanted (they cost more than the competition also).

In 1983, the end seemed very near indeed. With a borrow, build, then repay strategy, Schwinn had amassed \$60 million in debt since the end of the boom years and over production after unionization in 1980. Inventories were building and interest rates were hammering down on the struggling company. Three years of losses had seen Schwinn's net worth drop from \$43.8 million in 1980, to less than \$3 million in 1983. With the Chicago factory gone and the Greenville factory not quite pulling its own weight, Schwinn's lenders were getting nervous. With millions in write offs after the Chicago factory closing, Schwinn had almost no collateral. Never mind that its biggest liability, the outdated Chicago factory, had been cast overboard, Schwinn was facing bankruptcy. Weeks of negotiating resulted in a deal that listed the Schwinn name as a significant asset so that Schwinn could continue to borrow enough to purchase materials, parts, and bicycles. Things seemed to improve for a brief period.



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Schwinn continued to outsource to Giant of Taiwan and, in so doing, began to stretch its design fingers once again. No longer saddled with the manufacturing limitations of antiquated in-house machinery, Schwinn began to put out competitive offerings and at lower prices because of the low costs of manufacturing in Taiwan.

After the poor showing of the Scrambler and Schwinn's inability to produce the popular Sting in large quantities, Schwinn finally introduced a BMX model that could compete with Mongoose. 1983's Predator (manufactured by Giant) was billed as "a track bike built for the streets," and it was just in time to see the decline of the BMX "fad" and the beginning of the next "flash in the pan," the mountain bike. Schwinn's failure to get in early on the era of the mountain bike was arguably the final nail in the Schwinn coffin.

Giant manufactured Schwinn's first chrome-moly mountain bikes in 1984, the Sierra and High Sierra. They were an instant success, if late to the market. Ned Overend even won the Pacific Suntour Series in 1984 on a stock High Sierra.

Schwinn's new Excelsior division had begun selling the Air-Dyne exercise bike in 1979 (also manufactured by Giant after 1982). The exiled Fritz, ever loyal to the Schwinn company, didn't go down without a fight. In 1986 Excelsior sold more than 65,000 units and was grossing almost \$25 million per year. With near 50% margins, it was the most profitable division in the company (Schwinn bicycles were barely breaking even). Fritz couldn't keep up with demand. Ed Schwinn, Jr. was enraged. He continued to see Fritz as a challenger to his own power and he forced Al Fritz to retire in 1985. By 1989, Schwinn was selling almost 125,000 Air-Dynes, at which time the exercise bike was pretty much carrying the company.

In 1986, Schwinn was outsourcing 80% of its production to the growing Giant. In 1987, fearful of the potential competitor they had created, Schwinn, intending to protect themselves from a supplier that had grown too large, struck up a deal with China Bicycles. Schwinn purchased a third of the company and promised to divert most of its manufacturing away from Giant to the three year old company. China Bicycles, with Schwinn as part owner, knew that their biggest customer wasn't going anywhere. They did not go to the lengths that Giant had in wooing the Schwinn account. China Bicycles ramped up production slowly and could not meet Schwinn's demand or quality standards.

Meanwhile, Giant's feathers had been ruffled. The company had built enormous capacity to feed Schwinn and now needed to do something with the excess or drown under huge overhead costs. Giant put all of its force behind its own brand name and



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went head to head with Schwinn. By 1991, Giant was selling 300,000 bicycles under the Giant label every year in the U.S. alone. Schwinn was selling just over 500,000 units.

Next, Schwinn made the colossal error of acquiring a dilapidated bicycle factory in Budapest, Hungary. The cost for controlling interest was more than \$1 million. This was a year after 1987's record breaking \$7 million profit. The plant needed to be overhauled. It was outdated in every way. The ceiling leaked. There was a lot of money to be saved on labor, but after that, it wasn't even an improvement on the Chicago factory that Schwinn had closed. Hungarian labor proved to be lackadaisical in the crumbling former Eastern block. In 1988 the average Hungarian could make more money on the black market than as a legitimate worker for Schwinn. 1987 proved to be Schwinn's best year. Without another banner year, the company couldn't purchase the number of bikes from the Hungarian plant that it had projected.

Volume at the Budapest factory was too low to reap the benefits of economies of scale. Schwinn, the largest bike seller in America was juggling production from Giant, China Bicycles, the Hungarian plant, and its own Greenville factory in Mississippi. The company that should have been commanding the deepest discounts from materials and parts suppliers was losing money because it had splintered its manufacturing so poorly. In Europe for instance, the Budapest factory was a minor player and couldn't command discounts from suppliers. Costs stayed high. Sales stayed low. Quality was never on par with Giant's bikes. A recall from a faulty brake in 1991 cost Schwinn \$1 million by itself. Schwinn would never recover.

Every problem that Schwinn had in manufacturing their bikes was felt by the dealers. If there were delays, the dealers had to scramble to get bikes from other brands. If the parts failed, the dealers had to handle the complaints even if Schwinn backed up the bikes with replacement parts. Higher costs for Schwinn went straight to the showroom floor and cut directly into dealer profits. Schwinn assumed that its reputation would allow retailers to collect higher prices, but with quality suffering Schwinn quickly lost its clout with those selling Schwinn bikes.

The dealers began turning to other brands. Schwinn attempted to throw its weight around, taking away dealer "authorization" and the benefits and protections that came with it. One dealer saw his sales drop 10% after he lost his Authorized Dealer status. The next year, sales were back because of other brands.

In the late 80s Schwinn had made it clear that it would be moving away from Giant. Giant, in turn had become a direct competitor. But Schwinn would never be able to fully rid itself of Giant manufactured bikes. In 1990, Ed announced that Schwinn would be aggressively severing all ties with the manufacturer. A year later Schwinn had to go



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back to Giant because their other factories couldn't keep up. Schwinn just didn't have access to the capacity they needed. Therefore, Giant continued to have access to Schwinn's latest plans. Giant became less flexible on price and other services. They started calling Schwinn dealers and offering bikes almost identical to Schwinn's models (produced at the same factory, even) at a lower cost. Giant made itself into a liability for Schwinn. Schwinn recognized the issue, but was powerless to do anything.

Managers started jumping ship in 1990 after a year of losing money. That same year, Schwinn lost a patent lawsuit related to the Air-Dyne, one of the company's most important bread winners. Meanwhile, the Greenville factory lost \$7.6 million dollars in 1990. The plant was closed in 1991. The banks to which Schwinn owed \$64 million began to get nervous. They began to call in the loans as quickly but quietly as possible. All lenders were afraid of a rapid descent into the abyss, but hoped things would drop slowly enough for them to get their money out.

By the early 1990s, Michael Sinyard's Specialized was grossing \$170 million per year. More than Schwinn.

Schwinn filed bankruptcy in 1992 (just 3 years short of its centennial) and was purchased by the Scott Sports Group in 1993. By 1994 Schwinn had left 100 years of history behind, pulling out of Chicago and settling down in Boulder, Colorado. Scott took the company in a completely different direction. Almost all of the old lines were phased out within a couple years and Scott introduced a whole new type of Schwinn. The Homegrown mountain bike line was their new racing bike. Priced between \$1200 and \$3000 in 1995, these top-of-the-line stock racers featured the latest aluminum frames.

The Schwinn name lives on in the department stores the company abandoned in the 1960s. It is not much more than a discount brand today. Pacific owns the name and has relegated almost a century of innovation and history back to the toy department. Schwinn is a kids' brand once again.