

The global shortage of bicycles can also be felt in Hungary

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The epidemic, among many other things, has stirred up global transport trends, one of the interesting consequences of which has suddenly been the emergence of a demand for bicycles, which has led to an unprecedented global shortage in recent months. Yet, when I visited stores after learning of the news sweeping through the foreign press (<https://www.ft.com/content/6d68ebdc-0924-44e4-bbe5-6b1d75d291e9>), at first glance, there was no indication of a shortage: the bicycles for sale stood in rows next to each other in the same way as before, and the shelves were not empty.

Sellers reported that this did not look different even at the peak of the deficit in April and May. On the other hand, those who went to buy a bike with some ready-made idea in their minds could easily be disappointed. The most noticeable effect of the deficit was the decrease in the selection, which was mainly felt in the middle and upper category segment.

“By now, the situation has somewhat normalized, but it’s still a fraction of the choice of what used to be. City and touring bikes were mostly sold in April, but practically everything could be sold”

- said the seller of a shop in Budapest, who also mentioned that, for example, in a hypermarket in the lower category segment this shortage is not typical, it is easier for manufacturers to fill it, because the lower price does not put manufacturers at such risk of poor demand forecasting, than in the more expensive categories. The latter are very careful to produce only as much as they can surely sell.

After the curfew came into effect, people began to massively seek alternatives to public transport to reduce the risk of infection, and in the warmer spring weather, cycling seemed to be an ideal choice for many, based on traffic data of bike shops.

Demand was also boosted by the fact that, due to mass telecommuting, car traffic has dropped significantly. Those who used to be afraid to ride a bike because of heavy traffic have also dared to try city biking. The purchase of bicycles or the repatriation of dusty bikes at home was also simplified by the fact that visiting bicycle shops and repair shops was a justified move away.

Another reason for the sudden surge in demand was that many suddenly had to look for a new hobby, many families were looking for a bike for the weekend bike ride, so in addition to shopping for daily use, leisure bicycle purchase also boomed.

“Based on my own estimate, the increase in demand could be 30-35 percent, of which Hungarian retailers can satisfy roughly 15-18 percent. The buffer pools are now pretty much empty, the next period will be about reloading them”

- said Róbert Sipiczki, President of the Hungarian Cycling and Trade Association (Magyar Kerékpáripari és Kereskedelmi Szövetség). He also mentioned that there was no significant change in the type of bicycles people liked to buy, but rather the trends of recent years continued, so for example, the popularity of touring bikes and electric bikes (pedelecs) continues to grow.

“We sold every normal bike we could manufacture”

- this is how György Berkes summed up the last months. According to the owner of Gepida (Olimpia Kerékpár Kft.) no one on the market was prepared for the extreme outburst caused by the virus in the demand for bicycles. György Berkes reported a two- to three-fold increase over what they could satisfy. One sign of this was that people signed up for a “stock news”, that is to inform potential buyers when a product arrives that was out of stock.

Not all manufacturers had the same scenario

At Gepida, there was no stopping at production during the epidemic, they worked at full capacity. All of Gepida's orders came from Chinese suppliers before Chinese New Year, so the only thing changed from the normal course of business was that 90 percent of e-bikes were exported at other times, but now orders have arrived on traditional bikes, so they suddenly had to switch to this. There was a huge demand for the price range of HUF 150-200 thousand (about 580 euros) , but since the beginning of May the markets have recovered, so since then they have been producing more expensive electric models again.

According to András Neuzer, the founder and managing director of Neuzer Kerékpár Kft. in the first half of the year, the bicycle manufacturing company based in Esztergom was characterized by a roller coaster-like operation, with sometimes decaying order and other times with a leap into the skies.

"For us, a year usually looks like we're shipping our bikes to export markets around February-March. This year, however, there were mass redundancies at the beginning of the year, as bicycle shops in Germany, Austria, the Netherlands, Belgium or Slovenia, for example, closed in a row"

said Neuzer. He also mentioned that new markets had been partially found in these countries through online orders. In the same time, not all of the previous orders were cancelled completely, they were just slid after the opening. As a result, cash flow problems arose. "There was a period when a bill of roughly 1.5 million euros was unpaid to suppliers, but luckily they were aware of the situation and waited for the stores to restart when we were able to pay again," said András Neuzer.

However, another part of the suppliers could not deliver to the Hungarian manufacturing plant. Many Italian and French suppliers shut down due to the epidemic, and Chinese orders often started in late March, mid-April, with delays of several months due to shutdowns. Because of these, the plant operated at 60 percent capacity for roughly two months, with workers working part-time. In addition to the wage subsidy, it also helped them survive that they won a grant from the National Investment Agency (HIPA) tender, of which three 3D printers were put into operation.

"They worked continuously for 12 hours a day, which made our job a little easier because we didn't have to wait for Chinese parts."

-said Neuzer, who stated it mattered a lot that the government allowed the bike shops to be open during the curfew, so it was also possible to buy a bike. Thus, when export markets came to a halt, missing orders were partially replaced by domestic demand. From mid-May, there was already a serious oversupply, which lasted until June. **Neuzer reported roughly a 40 percent increase in sales and unprecedented sales volumes in the domestic market.** The task of the developers was to design models as quickly as possible that could be manufactured from available, incomplete parts and by redesigning the models originally designed for export.

Hungary is deemed to be significant bicycle manufacturer in Europe

In 2016, 402 thousand bicycles were made in Hungary according to the data of CONEBI. With this, Hungary accounts for 3% of all bicycles manufactured in the European Union, which is much more than the 1% weight of the Hungarian economy in the EU.

Hungary is also a significant bicycle manufacturer within the EU on the basis of the turnover realized by the manufacturers: according to the data of CONEBI for 2018, with a turnover of approximately 100 million euros, **Hungary accounted for 5.4 percent of the EU turnover.** Only Portugal, France, Romania, Germany and Italy had a higher turnover.

In Hungary, the industry's balance of power has not changed significantly in recent years: the largest player is the Dutch-owned Accell Hunland with a capacity of 300,000, which mainly produces new-generation electric bicycles at its plant in Tószeg. Its new bikes are exported to European markets, where it is also a market leader.

The next three players in the market are much smaller than Accel Hunland that closed 2018 with sales of almost HUF 83 billion: the Hungarian-owned Olimpia Bicycle, Neuzer and Csepel generated sales of HUF 2-4 billion in recent years. Of the three Hungarian manufacturers, Olimpia exports the most, according to their latest report - for the period between September 2018 and August 2019 - roughly 90 percent of their sales revenue came from exports. At Neuzer, the ratio of exports to domestic sales was roughly half, and a small part of Csepel's revenue in 2019 came from exports.

Domestic power relations could be significantly upset if Taiwan-based global multi-company Giant's Gyöngyös plant starts operations as early as this year, according to local news. According to the plans, the plant would produce one million bicycles a year, which would more than triple the number of bicycles produced in Hungary (400,000 bicycles were produced in the country in 2016).

The supply chain may be shortened

For the time being, the industry is only guessing what impact this year's jump will have on demand in the longer term. Sipiczki says soaring growth is not expected, but he can imagine next year to be as good a year for the industry as this year. Although a rapid increase in supply would be logical, it has physical limitations, as it is impossible to increase production capacity at such a level in such a short time. As he said

"Major parts manufacturers like Shimano are reporting a 30-40 per cent increase in their order backlog, which is why they have already predicted good delays in the delivery of new parts."

"Unfortunately, it's a long chain that needs to be moved at times like this. If I want to move plus or minus in manufacturing, the supply chain has a lot of inertia. We have about 80 suppliers, up to 5-6 months before an order arrives in the warehouse, and then a good few more days before we can produce it"

as Berkes said. He also reported that demand had already fallen sharply in July and August and orders were expected to return to pre-epidemic levels by the fall, but perhaps only next spring.

According to Neuzer, they are preparing for next year by filling the warehouses with parts and finished models, so that in the event of a second wave of epidemics their production will not stop.

"In the long run, the future is definitely to bring our suppliers closer, in the current situation, even if it is more expensive, we try to get parts from European companies, and in the case of our Hungarian suppliers we try to help develop their technology"

Neuzer said. According to him, 250-300 thousand bicycles can usually be sold on the Hungarian market every year, but the turnover was much higher this year. He expects those who have just started cycling to switch to higher-end bikes in a short time, but not as much traffic is expected next year as it did this year. In addition, the government is expected to introduce state support for the purchase of e-bikes, which, according to Neuzer, could lead to a significant increase in this segment next year as well.

"But overall, it could also increase demand to see more and more cyclists on the roads, which could encourage more and more people to ride their own bikes."

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