OAK PARK CYCLERY: A CASE STUDY

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ABSTRACT

Electronic Commerce has impacted the way modern businesses engage customers, procure products and services, and retain customer loyalty. Medium and large for-profit organizations have leveraged the power of the Internet and electronic commerce in the past by vertical integration of the additional resources to tap new markets and increase their competitive advantage. Currently, a paradigm shift is occurring in these organizations, where virtual organizations commoditize the resources necessary to compete globally. This case study describes how a small firm expanded its market share by leveraging the power of the Internet and Electronic Commerce.

INTRODUCTION

From its inception from the original owner in 1991, Oak Park Cyclery was destined to be a turnaround success story. Originally, the store was founded as a bicycle, cycling accessory, and bicycle services retail operation, by a cycling enthusiast whose passion for cycling sustained interest in the firm, but lacked the business acumen for long-term sustainability. The four new owners began their turnaround fueled by a passion for the sport of cycling, and over twenty-one years of successful cycling retailing experience in the Chicago-land area. Their previous retail endeavors thrived through the fuel price-gouging 1970’s, leading them to a variety of solutions to meet demand, including bulk purchases of shipping containers of merchandise from overseas manufacturers.

Oak Park Cyclery was nearing the end of a increasingly successful run, and the discord in the post-dot com market in 2001 left the firm’s revenue stream drifting downward, from $733K in 2001 to $649K in 2005, nearly a 10% drop from 2001 revenue, with a variety of new market pressures to contend with, including local competition, and the growth of the Internet and eCommerce. The former, local competition was not a new concern, as the owners’ had previous experience in surmounting the obstacles of a competitive market through superior service offerings, and long-term supplier relationships, which provided many high-end, exclusive products – both of which were major differentiators of the firm. What once was a playing field of monopolistic competition in certain markets grew into an oligopoly. Furthermore, the rise of the big-box retailers, such as Sports Authority, REI, Target, and Wal-Mart provided competitive pricing on bicycles and related accessories through their ability to pressure suppliers into providing low-cost merchandise. Luckily, many of the specialty
bicycle manufacturers, such as Trek, Specialized, and Bianchi only distribute their products through Independent Bicycle Dealers or IBD’s. This is part of a two-fold strategy. First, reduce the risk of price pressure from big-box retailers, who will demand the lowest prices on merchandise in exchange for volume, thereby pressing the price of goods as close to their true costs, reducing margins. Secondly, the IBD’s have been responsible for distributing merchandise through their stores, and interfacing with the customer, directly affecting brand awareness, along with high-quality service. In this scenario, both the manufacturer and the dealer “win.” To add to the competitive pressure, many of the bicycle manufacturers would place restrictions on pricing, limiting price wars between the IBD’s.

During the rise of the Internet and eCommerce related technology, a new type of pressure became a formidable opponent, offering convenience and selection, with little switching costs between one merchant or another – just simply a click away. As eCommerce grew out from the garages where it was started, and into the mainstream, the same merchandise available at Wal-Mart, Target, REI, and Sports Authority was available via the Internet at competitive prices, sometimes even with free shipping to your door or office! Luckily again, products from Trek, Specialized, etc. are also not subject to price pressures in this market segment, as these major bicycle manufacturers do not allow the sale of their merchandise on the Internet.

Barriers to entry were lowered as more and more IBD’s were entering the Chicagoland market, as others were exiting. The selection of local bicycle dealers increased buyer power. The manufacturers of select merchandise did not allow for any autonomy in competing on price, or expanding your market via the Internet, exercising intense supplier power. Substitutes were also a strong force, even though Wal-Mart, Target, and other big-box competitors were unable to sell Trek, Specialized, or Bianchi, there were able to sell “a” bicycle at a fraction of the price of their product offerings. To sum up, the intensity of rivalry is staggering in this industry, explaining at a high-level what can be observed in the core metrics of the business.

Previously, the concept of “a” bicycle was mentioned. To clarify, this is defined as the customer need for two-wheeled transportation. To differentiate, the opposite would be “a Trek bicycle” or “a Specialized bicycle.” When a customer enters a bicycle retail store, they are greeted, and asked if they need assistance. At this point, they are typically looking for “a bicycle” and are being qualified by a series of questions, which match the customer’s specifications to a series of options. There is a certain demographic that researched what they are looking for, and are walking through the door looking for “a Trek Bicycle.” The concern here is the customer looking for “a bicycle.” This is the target for the big-box competitor – the uninformed customer who cannot differentiate the value of a bicycle purchased at Wal-Mart versus Oak Park Cyclery.

A typical IBD provides bicycle sales, related product sales, as well as service and maintenance services. Clearly, this is a differentiator that the big-box stores do not and cannot offer the customer. Often, the IBD is tasked with the assembly and maintenance of products purchased from big-box retailers, as the retailer was only able to provide the product at a low cost, with no after-sales support.

While analyzing the process flow of Oak Park Cyclery, a “typical” purchasing process will be outlined. A customer walks through the door is looking for “a bike.” The customer is greeted, and a conversation starts. During the bike selection, typically the
customer will be up-sold on a variety of options. Furthermore, cross-sells of accessories and ancillary items will be made. At this point, the sale is made, and the transaction is captured. An assembler will handle final delivery of the purchase or mechanic, who will test the bicycle, install the purchased accessories, and procure a complete, ready-to-use product to the customer. Of course there are variances to this process, as customers may already have a bicycle and may be looking for accessories or service. This is a highly controlled environment, where the customer has control of the information of what he or she is looking for, and the merchant has control of the information of what is in stock, close substitutions of what is not in stock, as well as up-sell and cross-sell information. In a highly competitive environment, a customer who is not satisfied with the selection may patronize a more suitable retailer, paying the switching costs of changing merchants, in terms of the time it takes to drive to the next dealer.

Another type of pressure that Oak Park Cyclery, and many Midwest IBD’s were experiencing was the cyclical and seasonal nature of the bicycle business, due to weather. Bicycling is typically enjoyed much more in the warm, dry months, which are typically from late March through September, reaching a high point in the late spring and summer months of May, June, July, and August. Consequently, these three months are highest-grossing months for the industry in the Midwest. 64% of Oak Park Cyclery’s 2006 gross sales, about $360,593, were earned in the months between May through August.

ANALYSIS

Struggling for answers on how to compete, Oak Park Cyclery looked at a variety of options, including putting additional pressure on suppliers, asking for better credit terms to stretch out lines of credit to limit exposure and excessive costs in the down cycle of the season. Consolidating product offerings, eliminating duplicate merchandise was also successfully attempted. Staff costs were scalable, as employees were hourly, and were staffed up during the high season, and down for the rest of the year. Continuous improvements in inventory management were also successful. Many of these strategies, albeit successful, were not effective enough to drive up revenues and reduce enough expenses to 2001 standards.

The loss of revenue is not a situation that can be ignored. Action needed to be taken, and quickly. In late fall of 2005, Oak Park Cyclery took such action and put together an analysis of the cycling retail market.

During the feasibility analysis of the business planning, Oak Park Cyclery identified that many of its competitors had also expanded their local business by utilizing the Internet as a means to break into national, and international markets. At this point, the firm felt it might have been too late in exploring this option. Further analysis showed that many of the existing competitors’ sites had fatal flaws – or “opportunities” where Oak Park Cyclery could prevail in this space.

The first of these flaws were a lack of promotion. In short, you could find the web site by directly going to it, but there was no way to connect to the customer, as the site didn’t attract anyone to it who didn’t know who they were already. For the customer who was looking for “a bike,” there were also looking for a “a bike store.” The second opportunity was an outdated or difficult customer experience. Considering the technology available, demonstrated by the rise of Amazon, and other large e-tailers, the
IBD’s didn’t demonstrate a skill set in providing a desirable customer experience. Along the same lines, the websites either did not display telephone numbers, or offer a toll-free customer care or ordering line. Furthermore, many of the retailers would use the same vendor for hosting and managing their electronic store, so many of them looked similar, which of course, lacked in differentiation. Finally, many of the retailers weren’t seizing opportunities to increase the amount of goods sold in a transaction, and not offering up-sells and cross-sells with their product offerings.

Much of the merchandise from the major retailers was not allowed to be sold on the Internet, and violations would cost an IBD a severed relationship with the manufacturer. As a result, many of the items available for sale on the Internet were sold by large e-tailers such as Amazon.com, a virtual Wal-Mart of electronic commerce, as well as competitors, with little opportunities for differentiation.

Buyer power is a force with unique attributes in the eCommerce market. With the advent of Google, MSN, Yahoo, and other major Internet search engines, an organization must understand that the visibility of its product offerings to the Internet segment, “a segment of one,” is critical. Furthermore, comparison-shopping sites allow products from a variety of merchants to be displayed side-by-side, for instant price, shipping, and availability comparison. This practically eliminates switching costs – it truly is one click away from one vendor to another. Supplier power is as intense as ever, with restrictions on what can be sold via eCommerce, as well as the price select items may be sold for. Many of the suppliers would not allow “links” from their marketing and product information websites, to the eCommerce sites of IBD’s, which, in their opinion, would provide an unfair advantage in competing with other IBD’s. Many of them would not allow drop shipping, credit terms, or other means of managing inventory and costs of goods sold. Barriers to entry were low, as a variety of companies offered Internet and eCommerce hosting packages, barriers to exit were low, as many of the vendors that provided hosting services offered month-to-month services, with little obligation. Competition from close substitutes ties in with the force of buyer power. Quickly, a potential customer can “leave” your store for a better deal, without leaving their seat. In short, intensity of rivalry is also staggering in this industry.

Bicycles and cycling products were already successfully being sold online. This was certainly not a groundbreaking effort, and Oak Park Cyclery was not a first-mover in this space, but a fast-follower. The weaknesses of the industry were clear from the feasibility analysis – a dull and non-differentiated customer experience, lack of customer service and communication options, lack of up-sells, and cross-sells. Another weakness was the inability for many of the Internet cycling stores to be found by search engines and shopping sites. The biggest differentiator for the online bicycle retailer was clear: service, and many competitors clearly didn’t give this any thought. The opportunities are almost the antithesis of the weaknesses, with some additional considerations. First and foremost, the most obvious opportunity was reducing the exposure to seasonal market conditions. Certainly, by enabling an eCommerce store, customers from anywhere in the world are able to make purchases, expanding your market share to virtually anywhere breaking the barrier of weather – in short, it can’t rain and snow everywhere! Following the weaknesses, a crisp, organized customer experience on the web, backed by a service-oriented organization would clearly differentiate Oak Park Cyclery, from its competitors. Displaying selections that accompany a certain product as well as “the next best” product,
gives the customer the same high-touch qualifying approach that is used in the retail store. Finally, providing service, and post-sales support are means of differentiating Oak Park Cyclery from the pack.

DECISION POINTS AND ACTIONS

Focusing on the opportunities and the weaknesses of competitors proved that there was room to grow in the Internet cycling market. Oak Park Cyclery launched BikesAreCool.com, an electronic commerce division of Oak Park Cyclery, in January of 2006. Purposely differentiating itself from even its parent organization, the name BikesAreCool.com promoted not only the ability to buy cycling products via the Internet, but it also promoted the activity of cycling.

Some ground rules in terms of the goals for new venture were set. Some of more significant ones were capturing economies of scale, re-using as much of the investment in land, labor, and capital. Existing investments in infrastructure, (specifically warehousing) human capital, telephony and communications infrastructure must be maximized. Integration of the eCommerce business processes and the associated value chain must be integrated with those of Oak Park Cyclery, specifically, order management, customer care, and product delivery. A significant part of the value chain that must be leveraged is the supplier relationships in place with Oak Park Cyclery.

To minimize infrastructure costs, integrating a variety of vendor relationships into a cohesive solution assembled BikesAreCool.com. First of all, well-known hosting provider Network Solutions, using their remotely hosted solution Monster Commerce, serviced the eCommerce platform, the “point of entry” for the eCommerce customer. This tool allowed for remote administration of the eCommerce “store” including everything from the design of the site, to product offerings, and inventory control, to payment and shipping processing. The best part of this solution was that it did not require additional investments in infrastructure or headcount to implement or maintain. For a nominal fee, the service provider also developed a custom look-and-feel for BikesAreCool.com, to differentiate it from the other cycling eCommerce sites. Furthermore, since the design of the site was outsourced, the service provider, (eliminating again the risk of a vertically integrated solution) also handled usability and compatibility testing. To handle customer service calls, a unique solution from Freedom Voice allowed BikesAreCool.com to have a vanity 800 number, which is 1-888-371-BIKE (2453), and provided a multi-line call routing and voice mail system, which allowed for the routing of sales, customer care, site support, and vendor relations to appropriate phone numbers, using existing infrastructure, since this solution was remotely managed by the vendor. The call routing system also allows for the scheduling of calls, and call routing, such that between certain hours, phone calls can be routed to specific numbers, or quite simply, to voice mail. Finally, payment processing, fraud management, and settlement were handled by Cyber Source and PaymentTech, again, vendor-hosted solutions which interfaced directly with Oak Park Cyclery payment processing systems, and business banking institutions. All of these vendor-managed solutions, from the eCommerce site, to the phone system, to the payment processing system are accessible anywhere where there is Internet service – including handheld Internet devices.
The online catalog was organized into simple categories of bicycles, bicycle accessories, cycling clothing, bicycle repair, and sports nutrition products. This measure was taken to take advantage of the opportunity to provide the customer with a friendly and informative customer experience, made finding the right product(s) simple and ergonomic. Along this line of thinking BikesAreCool.com ensured that the images used to display product information were clear and detailed, often offering alternative views and angles, and zoomed photos. This technique, along with the use of rich descriptive content to inform the customer of the product offerings, provided a more robust experience. Specifications such as product MSRP, and inventory availability are displayed in real-time. Each product has associated with it a variety of “related products,” which models itself after the in-store experience, accessorizing and customizing the customer’s purchase, while pitching an up sell and cross-sell.

Some of the key features of the customer experience include a variety of informational material selling “Why BikesAreCool.com” as well as policies, shipping rates, and on-line assistance using the site. Three of the most significant features of the site, which differentiated BikesAreCool.com from many of competitors were the pervasive view of the shopping cart, contact information, and order status links. The significance lies in the ability for the customer to know how much they are spending, and that they can make changes to the amount of items in their cart. Furthermore, a customer can estimate shipping charges, provided in real-time by UPS and DHL, by providing their zip code. Providing contact information is critical in that the online customer needs to feel “connected” with the merchant, or at least safe and secure that their transaction will be supported. The customer is provided both email and phone contact information, depending on their concern. Finally, the order status capability, allows a level of interaction where the customer can track the progress of their purchase from initial sale, through delivery. In order to use order status, a customer must “register” as a customer. Registered customers may also elect to receive updated news from BikesAreCool.com via email. Other customer-friendly features include the “Hacker Safe” and “Site Safe” seals, which signify that safeguards have been put in place to prevent customer credit-card information theft. Both of these services are also remotely managed vendors that integrate into the BikesAreCool.com solution.

The economies of scale are evident in the order process. Customers place orders via BikesAreCool.com through their web browser, using a credit card, which is checked by CyberSource and PaymentTech credit card processing and fraud prevention. Oak Park Cyclery is notified by email that the order was successfully processed. Some customers, especially those still wary of Internet transactions, prefer to use the telephone to place their order. Their call is routed to Oak Park Cyclery, and the person taking the call can place an order through the BikesAreCool.com site as if they were a customer, which makes the BikesAreCool.com website act as a point-of-sale system. The credit card transaction is automatically cleared and settled in the Oak Park Cyclery business bank account. An invoice is printed, and the order is picked and packaged by existing Oak Park Cyclery personnel. The order status is then switched to “In Progress.” A DHL or UPS waybill is printed, and placed on the box. A daily pickup from the shipper retrieves the boxes and the order status is then switched to “Shipped” including the shipping tracking number and shipment method. Again, aside from the actual picking, and packaging of products to fill a customer order, all of the above steps can be and have
been in many cases handled from remote locations. In fact, a few of the suppliers have allowed us to work on a “zero-inventory” and drop-shipping model, where the customer order is electronically transmitted to the supplier’s warehouse for fulfillment. Post-sales issues may be resolved via the telephone or via email.

Besides the mechanics of how BikesAreCool.com works as both a system and a business, a significant paradigm shift in marketing strategy matches the integration of outsourced resources and vendors. A weakness pointed out in the cycling commerce industry is many firms’ ability to attract customers. Typically a retail operation has a physical presence, whose signage offers some level of advertising and promotion. The front windows feature appealing items available for sale. A phone listing in the yellow pages, or local advertising gained the share of mind of potential customers. Occasionally, direct mail serves as an option for fostering brand awareness.

Many of these tried-and-true techniques are marginally effective in brick-and-mortar retail stores, as they are not conversational, and are more of a soliloquy for the retailer to say, “I’m here” to prospective customers. With the advent of the Internet, and the proliferation of content in the form of information as well as online businesses, the ability to find what one is looking for is more and more difficult. Search engines such as Google, MSN, and Yahoo! assist the Internet user with finding what they’re looking for albeit information or online merchants. These search engines store the informational essence of web sites, and index them using the key words that are relevant to the site’s contents. Once a site is submitted to Google, MSN, or Yahoo, it may take up to six months for a search engine to properly “index” a site. An ecommerce site has no way to announcing to the Internet “I’m here, and I’m selling widgets!” Fortunately, utilizing tools such as Google Adwords can curtail the six-month wait significantly, which is a real-time advertising service built into the Google Search engine. When Internet users are looking for something, they often perform a search using Google or a similar search engine. Depending on the keywords of the search, relevant information will be displayed in the results shown. Google Adwords displays advertisements that match the keywords used in the search at the top and down the right-hand side of the search results. Advertisements consist of a 4-line textual representation, including a line that advertises the website of the advertiser. If the advertisement is clicked, a fee is charged to the advertiser, and the web site associated with the advertisement is then loaded into the browser. Advertisers simply bid on the keywords that match the information or products that are being promoted using an online, web-enabled tool available wherever an Internet connection is available. The highest bidder of the keywords will be displayed at the top of the search results, and the next bidders below it, and so on all the way down the page. MSN and Yahoo offer similar advertisement products for their search engines as well. All of the tools allow their advertisers to manage and plan daily advertising spend, and can track the amount of times the advertisement is displayed, as well as the amount of times the ad is “clicked” and how many clicked ads result in a conversion. Typical paper and media advertisements just don’t have that kind of accountability and self-service features. Shopping.com and Shopzilla.com offer a similar search capability, but these sites have the same “pay per click” model, but allow comparison shopping between the merchants of a given product, allowing an end-user to compare prices, availability, and shipping costs.
As pointed out, a serious weakness of the cycling eCommerce industry is the lack of promotional strategy. By using many outsourced vendors to effective “run” the eCommerce operation (which operate with a minimal investment, and month-to-month service fees, and no significant capital expenditures) BikesAreCool.com is able to invest more in its advertising spend which is an investment that connects the customer to the products they’re seeking, with a high likelihood of conversion.

At the point of loading http://www.google.com into one’s web browser, the end user has just started engaging a market, defined as “where buyers and sellers meet.” As the “conversation” continues, the end-user types in a word or group of words. Google then displays the informational and eCommerce sites that match those keywords, as well as the advertisements that represent the winning bids on the keywords in the search. These advertisements match the buyer to the seller. The marketing segment is no longer geographic but a “segment of one.” Anyone who can access the Internet is part of that segment. A seller needs understand the keywords that define the products and services it sells, and strategically devise advertisements, as well as bid highly on the keywords that match its product offerings.

What makes a great Internet advertisement? Nothing more than the 4P’s (product, price, promotion, place of distribution) of marketing, not to mention the elusive “5th P” - personalization. As mentioned earlier, the Internet buyer is having a conversation with the marketplace, and a savvy seller needs to know how to listen, and quickly provide the information to the prospective buyer. The key information that a prospective buyer wants to know is 1.) Who has the product I’m looking for? 2.) What is the price? 3.) Do they have the product in stock? 4.) How much will I be charged for shipping? 5.) Where can I get it? With only typically 4 lines to write an advertisement, one needs to write an ad that communicates these 4P’s to the potential customer, because there are many advertisements on the page, and the faster you can begin the process of making a purchasing decision, the more likely they are going to click your advertisement, and continue to your site. This why it is critical to use the “5th P” of personalization and not only take the end user to your site, but directly to the page that highlights the product, with a clear image, detailed description, and complementary goods, not to mention, a means to make an immediate purchase. By personalizing the advertising and point-of-entry to a given merchant’s site, you are responding to a customer’s needs. Where competitors fail is that they use “blanket advertisements” that do not engage the customer’s specific needs that do not connect with them or even engage them. Clicking on one of these advertisements simply takes the customer to the home page of the site, and they will have to navigate to the specific product offering. Often, this is too many steps in an environment with low switching costs, and the customer will often choose a more personalized experience. Similarly, the comparison shopping sites offer similar bidding structures, and in many ways can be more effective means of advertising, in that end-users that are frequenting shopping sites are looking to buy, versus the end-user simply using Google or a search engine to gather information before making a purchase.

Another strategy for the promotion of BikesAreCool.com has been direct connections with the manufacturers’ marketing web sites to the Oak Park Cyclery and BikesAreCool.com website. Office stock has been re-printed to display the website address of both organizations. As mentioned earlier, customers who register with BikesAreCool.com to track their orders are able to opt-in to receiving updates on
BikesAreCool.com specials and promotions. This has carried into the brick and mortar Oak Park Cyclery business, where customers who purchase products over the counter can sign up for the BikesAreCool.com email newsletter by providing their email contact information when they purchase bicycles, accessories, and service. Periodically, a personalized newsletter is sent out to the members of the mailing list, which stirs interest in visiting both the site and the retail store.

Differentiations from the price wars that can result from a hypercompetitive market are mitigated with a simple strategy – value-added service. Amazon.com, other large retailers, and small retailers may compete on price. Again, Oak Park Cyclery provides the value-added service of delivering a bicycle to the customer, fully assembled and tested, just as if it was purchased in the store. This is something that Amazon.com, and Sports Authority can’t do, and therefore they cannot compete in this space. Oak Park Cyclery can do it with existing retail store staff, maximizing economies of scale. Given many of the products sold at BikesAreCool.com were new product offerings, and many of existing offerings in the brick-and-mortar store were unable to be sold online, Oak Park Cyclery has now increased its product offerings using both channels, enjoying scope economies as well, and using the same combined resources of the retail and online store.

RESULTS

2006 proved to be a profitable inaugural year for the Oak Park Cyclery and BikesAreCool.com “brick and click” venture. BikesAreCool.com produced $333K of revenue, added to $564K of retail store sales, for a total of nearly $900K of total revenue, surpassing the previous year’s sales of $649K. Overall nearly 40% of the revenue from the combined operation came from the BikesAreCool.com online store. More than half of the sales during the December holidays were also from BikesAreCool.com. In fact, the lowest producing months for the Oak Park Cyclery operation, February, October, and November, affected mostly by seasonal conditions, were the months where the online operation produced over half of the revenue for the combined operation – up to 75%.

The expense breakdown is displayed in the following chart, with cost of goods sold or COGS, is the largest expense, and advertising the next largest. Notably, infrastructure costs, including the service providers for eCommerce hosting, call routing, and other services only attribute to 1% of costs. This is astounding considering the amount of vertical integration that exists in typical firms in this space, and its impact on SG & A expense.
The breakdown of the types of products sold is shown in the graph below, showing that accessories and folding bikes represent the majority of the purchases.

The gross margin on BikesAreCool.com items are slightly lower than items sold in the store, and operating profit held strong at 8%, in line with the leisure goods industry.
standard 6.12% - 8.27% as reported by Deloitte and Touche’s retail segment study. BikesAreCool.com’s unique cost structure can afford it future upward scalability of earnings, without incurring significant costs, particularly additional capital expenditures.

Market expansion is a significant growth aspect. Customers from New York and California top the customer list, and proclaim that the door-to-door complete cycling solution is what drives their purchases. Retirees in the Southeast region like the personalized phone ordering service and customer care. Remote parts of the country where brick-and-mortar cycling retailers are non-existent is another untapped segment-within-a-segment. Considering that Oak Park Cyclery’s market reach was typically within the Chicagoland area, BikesAreCool.com has increased market share on a worldwide level, as shown by the map below, which depicts the geographic origins of visitors in 2006.

A business that was once reaching a metropolitan area of a city in Illinois now attracts visitors from North, Central and South America, as well as Europe, Africa, India, Asia, and Australia to name a few regions, continents, and countries represented above.
THE FUTURE

Clearly, there are opportunities abound. Increasing product offerings will offer economies of scope. Suppliers and manufacturers eager to gain market share, will succumb to market forces and trends, and will eventually shift their strategies to meet demand. Currently, Oak Park Cyclery’s fraud protection service only guarantees domestic transactions where addresses can be verified. Other means of transacting business internationally need to be explored further. Inventory control measures, such as zero-inventory and drop-shipping relationships both increase efficiency and reduce risk. Furthermore, fusing the suppliers’ global distribution networks with the order routing capabilities increase the global market reach of BikesAreCool.com without incurring significant shipping costs, sourcing products from the nearest supplier’s distribution center, versus the centralized distribution model in North America. Besides the squeeze of competitors in the Internet retailing space, with its low barriers to entry is the threat of forward integration by the bicycle manufacturers themselves. In the current and future business trend of the assembly of service providers of core competencies in a virtual organization, this threat becomes less likely moving forward.