Schwinn: IBM Net.Commerce Keeps Dealers in the Loop

An IDC e-business Case Study

THE RESULTS	*"IBM helped us to design an architecture that made the shopping experience easier, more natural and more enjoyable. We feel that the IBM team's e-commerce expertise was the key ingredient in Schwinn getting the right e-business solution."*

THE GOAL	NEAR-TERM:	A feature-rich e-commerce solution in which Schwinn's dealers play a major value-added role.
	LONG-TERM:	Extend e-business functionality throughout Schwinn's value chain.

THE ORGANIZATION	VITALS:	Schwinn Cycling & Fitness Inc., based in Boulder, Colorado, builds and markets bicycles and a wide range of fitness equipment (under the Schwinn brand).

THE SOLUTION	PROFILE:	Business-to-Consumer e-Commerce Solution
	DEPLOYMENT TIME:	Approximately 30 days
	IMPLEMENTATION TEAM:	IBM Global Services and Schwinn/GT IT Staff

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Schwinn has long maintained leadership in the bicycle and recreational market through a combination of revolutionary products and innovative business practices. One of its most important strategic assets is its independent bicycle dealer network, under which the company sells through a network of authorized dealers of Schwinn products. While many of Schwinn's competitors have begun to embrace the mass market distribution model, Schwinn sees the dealer channel as a critical instrument for delivering cutting-edge customer service. As Schwinn began to embrace the e-business model—beginning in the business-to-consumer e-commerce space—it faced the classic challenge of forging closer relations with customers without undermining the role of dealers in its distribution strategy.

Schwinn addressed this challenge by choosing IBM Global Services to design a solution that provided both sophistication to consumers on the front-end—as well as an important role for distributors on the fulfillment and post-sales side. Using IBM Net.Commerce (now called WebSphere Commerce Suite), Net.Data and DB2 Universal Database, IBM Global Services worked closely with Schwinn's IT staff to build Schwinn Store, a unique business-to-consumer e-commerce solution under which dealers assume responsibility for fulfillment—in addition to their historical role of front-line customer service.

In choosing IBM, Schwinn looked not only at performance factors such as scalability and reliability, but also at the ease with which the solution would integrate with other vendors' solutions. Schwinn's choice of Net.Commerce as its commerce engine was driven in large measure by its ability to seamlessly integrate with IBM Business Partner Lawson Software's ERP solution, which Schwinn uses for such key business functions as inventory management and order processing. Schwinn also saw IBM Global Service's e-commerce expertise as a key factor in its choice of IBM as its solution provider.

The Schwinn initiative has already achieved its main goal—to provide customers with a more convenient way to purchase Schwinn products—while at the same time strengthening both its brand and its relationships with dealers. Feedback received from dealers thus far are unambiguously positive, a reflection of how Schwinn Store provides an invaluable tool for establishing and building profitable new customer relationships. Despite the newness of the Schwinn Store offering, customer satisfaction levels have also already strengthened noticeably.

Schwinn Store is the first of a series of e-business initiatives that will permeate all layers of Schwinn's value chain. Schwinn expects its e-commerce initiatives to become more and more tightly integrated across its value chain, as exemplified by its plans to use Net.Commerce to develop a B2B dealer extranet that will enable its dealers to order online.

The Solution

Software

- IBM Net.Commerce
- IBM Net.Data
- IBM DB2 Universal Database

Services

- IBM Global Services

The Benefits

- Higher customer satisfaction
- Stronger dealer loyalty
- Strengthened brand
- Expansion of customer base
- Improved administrative efficiency
- Easy integration of e-commerce and back-office systems

! Business Environment

Founded in 1895 as Arnold, Schwinn & Company, Schwinn/GT ("Schwinn") has long been a leader in the bicycle and recreational market. Throughout its long history, Schwinn has shown itself to be both an innovator and a highly adaptive competitor. Among its early milestones was the introduction of balloon tires and handlebar gear changers. Over time, Schwinn broadened its product offerings to include fitness equipment, such as treadmills and steppers, and—more recently—mountain bikes.

One of Schwinn's most lasting legacies has been the independent bicycle dealer network, under which the company sells through a network of authorized dealers of Schwinn products. Essentially created by Schwinn more than 100 years ago, the independent dealer network has become the predominant channel model for bicycle manufacturers in the United States. While its competitors have shown varying levels of commitment to the dealer-based distribution model, Schwinn has elevated it to the highest levels of strategic importance, notes Marnie Lowrey, Schwinn's e-Commerce Manager. "In addition to the Schwinn brand, we consider our dealer relationships to be our most important strategic assets," says Lowrey. "All of our market strategies going forward have a strong commitment to the dealer channel at their core."

! e-business Challenge

Schwinn's e-business strategy was shaped by two key factors. The first, outlined above, was Schwinn's decision to reaffirm its commitment to the dealer channel at a time when many of its competitors had begun to pull out of this more costly channel in favor of mass merchandisers. The second factor driving Schwinn's e-business strategy was its desire to extend its channel reach through a business-to-consumer e-commerce solution. In addition to making it easier for consumers to buy Schwinn products, notes Lowrey, an e-commerce platform would also serve to further strengthen the Schwinn brand.

In formulating its e-commerce strategy, Schwinn's challenge was to preserve—indeed strengthen—its dealer relationships, while at the same establishing closer linkages to customers. According to Lowrey, Schwinn embraced an e-commerce approach fundamentally different from those of its competitors. "We see most of our competitors adopting a Web commerce strategy that completely bypasses the dealer channel," says Lowrey. "We wanted to clearly show our dealers that this is not our intention. We wanted to make sure that our dealers knew that they were included in our vision of Schwinn as an e-business."

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e-business Challenge

Schwinn

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—Marnie Lowrey, e-Commerce Manager, Schwinn

! First Steps

After articulating its dealer-inclusive e-business vision at a high-level, Schwinn soon began to solicit feedback from its dealers and its outside sales force through a series of focus groups. Conducted during Schwinn's annual "road shows," the focus groups provided direct input on how the program should work, with specific emphasis on such issues as pricing and the dealers' role in the fulfillment process.

Internally, the e-business initiative was led by Schwinn's IT department, working in close collaboration with marketing staff from Schwinn's Cycling and Fitness Division. Led by Lowrey, Schwinn's project team defined the project's specifications. After completing the initial design of the system in August, 1999, Lowrey's group consulted with all the Schwinn internal organizations that would be impacted by the e-commerce solution, including the Sales and Finance departments. Likewise, Schwinn worked closely with its network of dealers to assist them in acquiring Internet access.

! Decision Criteria and Process

In selecting an e-business solution provider, Schwinn looked not only at performance factors such as scalability and reliability but also at the ease with which the solution integrates with other vendors' solutions. Schwinn's ultimate selection of IBM as its solutions provider resulted from a recommendation from Lawson Software, Schwinn's ERP software vendor. According to Lowrey, Schwinn's choice of Net.Commerce (now called WebSphere Commerce Suite) as its commerce engine was driven in large measure by its ability to seamlessly integrate with Lawson's ERP solution, which Schwinn uses for such key business functions as inventory management and order processing. "We had long recognized IBM's commitment to the e-commerce space and were very favorable to the Net.Commerce product," says Lowrey. "But feature-wise the real clincher was the ease with which Net.Commerce will allow us to build a truly integrated e-commerce platform, allowing us to truly automate all aspects of our transaction flow. It was an easy choice for us, and in retrospect a very good one."

Lowrey also views IBM Global Service's e-commerce expertise as a key factor in Schwinn's choice of IBM as its solution provider. "Given the requirement that we include our dealers in the transaction loop, we knew that IBM's experience in building sophisticated and innovative e-commerce solutions would serve us well," says Lowrey. "We knew that by working with IBM Global Services, there would be few barriers to our achieving our e-business vision."

Key Decision Criteria
In Selecting IBM

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! The Schwinn Solution

Known as "Schwinn Store," Schwinn's e-business solution is a business-to-consumer e-commerce platform whose offerings include its line of fitness equipment and accessories, bicycles and bicycle parts and accessories. Running on a Sun server, the solution employs nearly all of Net.Commerce's out-of-the-box functionality, including the Product Advisor tool and DB2 Universal Database, on which reside Schwinn's product and pricing information. IBM Net.Data middleware was used to integrate the front-end of the solution to these DB2 databases.

The fundamental design of the solution reflects Schwinn's aim of including the dealer network in the e-commerce transaction loop. Specifically, while Schwinn receives and processes orders (including payment authorization of credit card), dealers fulfill the orders by delivering the product(s) to the customer's home. Consumers using the Schwinn Store can select a dealer using the store's Dealer Locator utility, which displays dealers in a given area that are carrying the specific products and have them in stock. Importantly, while the locator assists customers in finding the closest dealers, customers retain the right to choose a dealer.

Figure 1:
Basic Architecture of the Schwinn Solution

Architecture Level	Solution Elements	About Solution Element(s)
Schwinn Customer	End Users	Users register at the Schwinn site (www.schwinn.com) and log on with a password and user ID. Targeted users include consumer and institutional customers.
Front-end Linkages		Customers access via the public Internet.
Web Server	Sun Server	Located at Schwinn headquarters in Boulder, CO.
e-Commerce and Database Applications	IBM Net.Commerce IBM DB2	IBM Net.Commerce version 3.2; DB2 databases contain product and pricing data. IBM Net.Data used to integrate Net.Commerce with DB2 databases.
Back-end Systems	Schwinn's ERP Platform	Schwinn plans to integrate Net.Commerce with its Lawson ERP package to provide realtime inventory lookup capability and eliminate all manual order entry.

Source: Schwinn and IDC

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After receiving the order and authorizing the credit card, Schwinn forwards the order via email to the dealer. After delivering the product to the customer (generally within a week), the dealer then notifies Schwinn when the delivery has been made, at which point the dealer's account is credited with the margin associated with the sale. Lowrey sees the Schwinn Store solution as fulfilling the mandate that distributors remain an integral part of Schwinn's e-commerce strategy. "We essentially wanted to become a moderator between consumers and our dealers, allowing us to get closer to customers, while enabling our dealers to play the value-added role of building and growing customer relationships," says Lowrey. "The solution we build with IBM's help fully meets this goal."

Schwinn's initiative began in August, 1999 when it conducted numerous discussions with representatives from IBM Global Services (as well as Lawson Software) related to the solution's high-level design. Implementation of the solution was performed by a combination of Schwinn and an IBM Global Services team of three (with the latter providing the majority of assistance in the area of customization). According to Lowrey, Schwinn's deployment unfolded in four phases. The first task, undertaken by Schwinn, was to modify the product categories and product template pages within Net.Commerce, and to enter all the products and pricing information into the DB2 data tables. Both the IBM Global Services team and the Schwinn team used IBM Net.Data to integrate the front end of the system with the DB2 data tables.

IBM's main role in this phase was a major customization effort related to the shipping and the dealer-delivery portion of the solution (including the establishment of a linkage to an external Web site for the Dealer Locator utility). Lasting approximately 30 days, the first phase culminated with the launching of the fitness-equipment segment of its site on October 1, 1999.

The second phase of Schwinn's deployment—the addition of bicycle accessories—was completed at the end of December 1999. Under the recently completed third phase, Schwinn worked with IBM Global Services to add the

Figure 2:
Implementation Timetable for the Schwinn Solution

	August/ September 1999	October 1999	December 1999	February 2000	December 2000
Schwinn conducts initial discussions with IBM Global Services	■				
First phase of development begun (fitness equipment site)	■				
Schwinn Store goes live, selling fitness equipment		■			
Second phase completed (addition of bicycle accessories)			■		
Third phase completed (addition of entire bicycle line)				■	
Net.Commerce platform integrated with ERP platform					■

Source: Schwinn and IDC

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entire bicycle line as well as an expanded bicycle parts and accessories offering (completed at the end of February 2000). Schwinn now has approximately 1,700 products for sale at the Schwinn Store site. The most recent task, also undertaken with the assistance of IBM Global Services, was the implementation of the Product Advisor feature of Net.Commerce, which uses an interactive questionnaire to help customers narrow their range of product choices based on desired specifications.

The final phase of the implementation, slated for completion by the end of 2000, is to integrate the Net.Commerce platform with its Lawson ERP platform. The main focal points of the integration effort will be inventory and order processing, which will ultimately allow all orders received via Net.Commerce to be processed by the Lawson ERP system without any manual intervention.

Schwinn's e-business initiative is clearly designed to increase revenues by providing customers with more purchasing opportunities. However, as Lowrey points out, the true essential benefit of the Schwinn Store initiative is a strengthening of both the Schwinn brand and its dealer relationships. Based on feedback she has received from dealers thus far, she sees the program as an unqualified success. "This is working out very well for our dealers," says Lowrey. "It's providing them with new contacts, easy sales, and a really high margin—all at no cost to them. Our dealer network loves this program." As Lowrey adds, the benefits to dealers extend well beyond the margin from Web transactions. "This has proven extremely lucrative for our dealers because many of the customers who buy on the Web are going back to the dealer to purchase more. So with virtually no customer acquisition cost, they have developed a new profitable customer relationship."

As Lowrey points out, one of the major reasons Schwinn's dealer network commands such attention is its pivotal role in delivering superior customer service—one of the hallmarks of the Schwinn brand. "We view our dealers as a critical link in our customer service delivery model," says Lowrey. The

Figure 3:
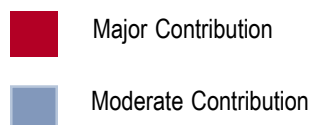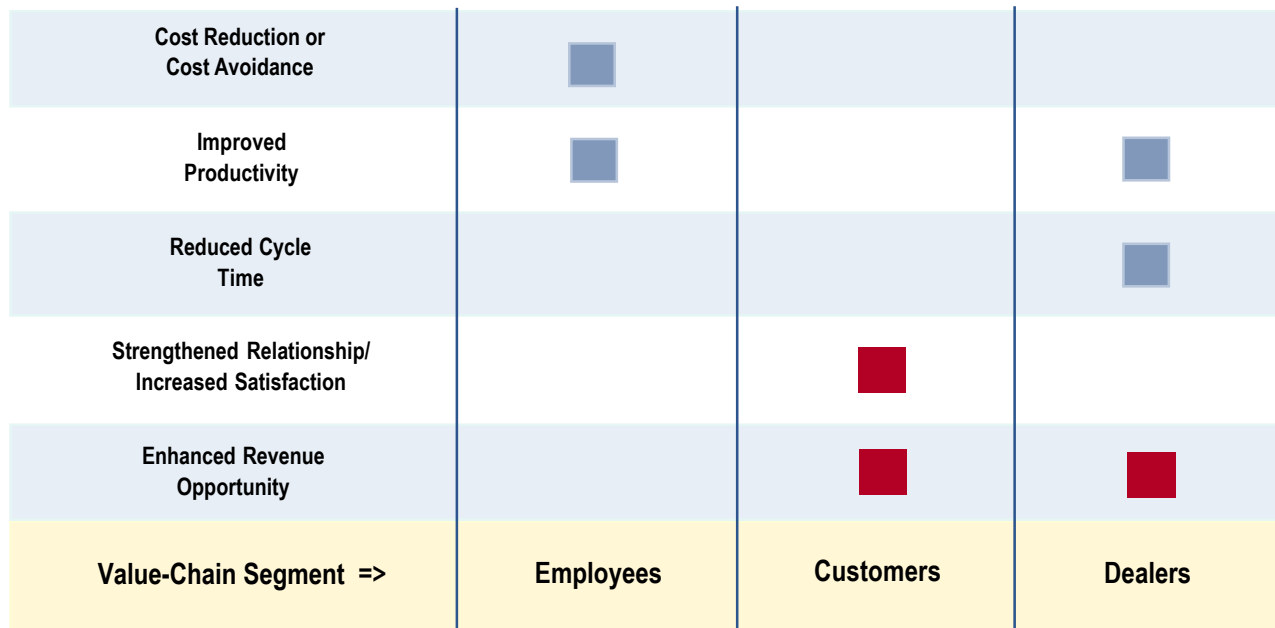## Overview of the Schwinn's Business Results Achieved

Business Process Area	Nature of Benefit	Description or Metric
Channel Development	Improved loyalty	Provides Schwinn dealers with new and follow-on business.
Strategic Marketing	Strengthened brand	Schwinn Store extends and strengthens the Schwinn brand.
Strategic Marketing	Broader penetration	Enables expansion of market penetration in key segments
Order Processing/Administrative	Improved Efficiency	Future linkage to Lawson ERP will eliminate manual processing
Customer Service	Higher satisfaction	Customers have provided universally positive feedback.
Application Development	Faster time to deployment	Net.Commerce made it easy to integrate with 3rd party software.

Source: Schwinn and IDC

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importance of this linkage lies at the root of Schwinn's efforts to keep its dealers woven tightly into its e-commerce strategy. "We believe that any weakening of the link between dealer and the customer will in turn lead to weaker customer service, since our dealers represent the front line of our customer service efforts."

Despite the newness of the Schwinn Store offering, customer satisfaction levels have already strengthened noticeably. And this, notes Lowrey, is just the beginning. "We expect increased customer satisfaction from users of Schwinn Store to lead to more follow-on sales," says Lowrey, who points out that Schwinn's Web strategy plays perfectly into its strategy of selling "across the family"—by using Net.Commerce's best-of-breed product merchandising capability. "We've found that many older buyers who have been out of market for a while need help in understanding what their options are," notes Lowrey. "We see Net.Commerce's Product Advisor feature as a great way to deliver the product information in an efficient and easy-to-use-format."

Figure 4:
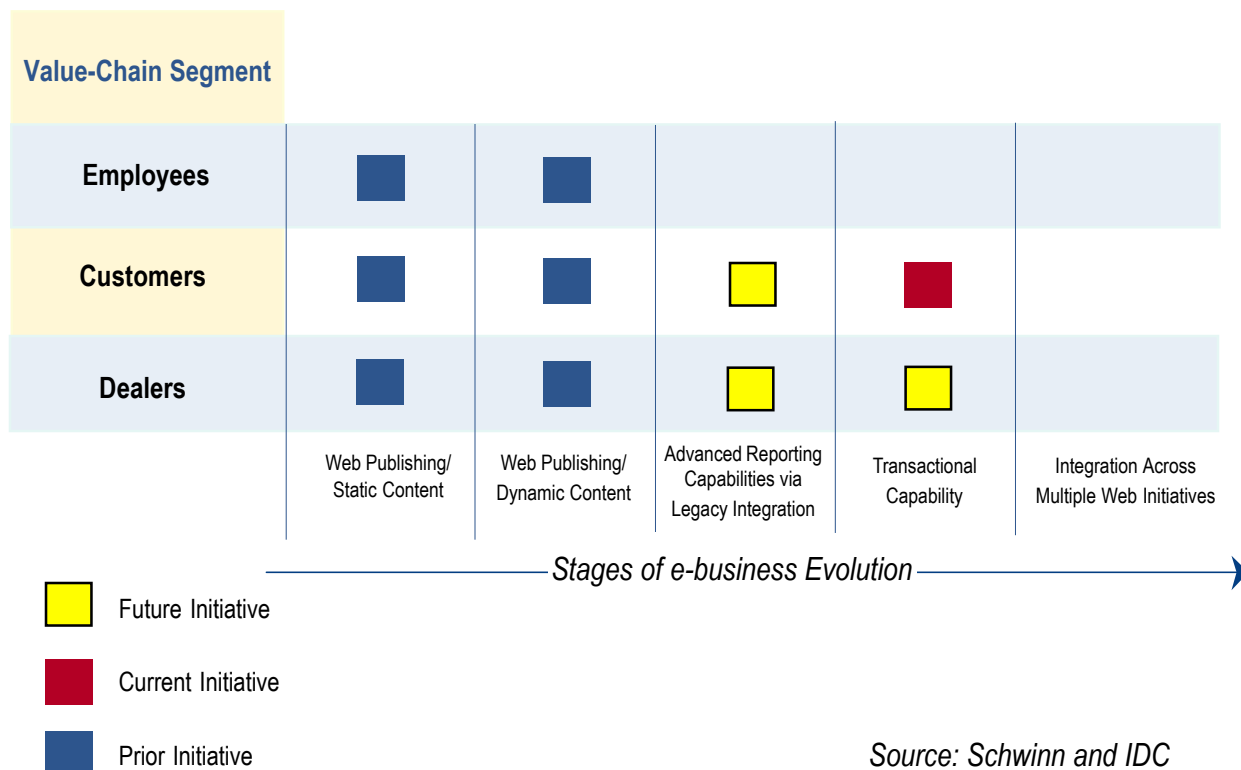## Expected Contribution to Schwinn ROI by Value Chain Segment

	Employees	Customers	Dealers
Cost Reduction or Cost Avoidance	■ (Moderate)		
Improved Productivity	■ (Moderate)		■ (Moderate)
Reduced Cycle Time			■ (Moderate)
Strengthened Relationship/ Increased Satisfaction		■ (Major)	
Enhanced Revenue Opportunity		■ (Major)	■ (Major)
Value-Chain Segment =>	Employees	Customers	Dealers

■ Major Contribution

■ Moderate Contribution

Source: Schwinn and IDC

Schwinn considers its e-business solution a "win-win-win" success. Interpretation: "It's a win for Schwinn because it was a very smooth deployment that yielded a powerful platform that will let us grow. It's a win for our dealers because it provides them with a stream of high-quality, likely-to-repeat customers. It's a win for our customers because they gain an easier and more convenient way to buy, receive better service, and have access to more information to make a better decision," explains Lowrey.

Lowrey views Schwinn's positive deployment experience as an outgrowth of the Net.Commerce's ease of use, which enabled her team to develop a substantial portion of the solution in-house with minimal training. But she is quick to point out the value that IBM Global Services provided in making Schwinn's dealer-centric e-business vision a reality. "IBM played a role at all the critical junctures of the process, from design to customization" says Lowrey. "IBM help us to design an architecture that made the shopping experience easier, more natural and more enjoyable. We feel that the IBM team's e-commerce expertise was the key ingredient in Schwinn getting the right e-business solution."

Figure 5:
Schwinn's e-business Evolution and Value Chain Focus

Value-Chain Segment	Web Publishing/ Static Content	Web Publishing/ Dynamic Content	Advanced Reporting Capabilities via Legacy Integration	Transactional Capability	Integration Across Multiple Web Initiatives
Employees	■ (Prior)	■ (Prior)			
Customers	■ (Prior)	■ (Prior)	▢ (Future)	■ (Current)	
Dealers	■ (Prior)	■ (Prior)	▢ (Future)	▢ (Future)	

Stages of e-business Evolution →

▢ Future Initiative

■ Current Initiative

■ Prior Initiative

Source: Schwinn and IDC

IDC

Since completing the third phase of its business-to-consumer e-commerce solution in February, 2000, Schwinn Store has experienced a doubling of volume each month—despite having conducted only minimal promotion of the site. Indeed, Schwinn expects to begin aggressively advertising Schwinn Store in 3Q00, when all of the site's functionality becomes available.
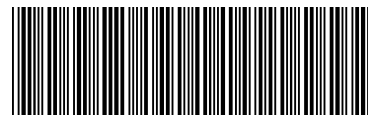
Lowrey sees Schwinn Store as the driving edge of a broader wedge of e-business initiatives that will permeate all layers of Schwinn's value chain. "We see our e-business vision as synonymous with the future of our business overall," says Lowrey. "We expect our e-commerce initiatives to become more and more tightly integrated with other business processes. A great example is our plan to use Net.Commerce to develop a dealer extranet that will enable our dealers to order online. This initiative shows both our commitment to pervasive e-business as well as our intention to keep our dealers at the forefront of our broader strategy."