

A Trek through Time – The History of Trek Bicycles

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Waterloo has secured a new sense of significance in French history. Over the past three years, the cycling world learned that Waterloo, Wisconsin-based Trek Bicycles was now the home of a Tour de France winning bicycle frame. Lance Armstrong's inspirational victories have catapulted the Midwestern bicycle manufacturer into the spotlight by making it the first American bike frame to win the world's most prestigious bicycle race.

The road to the Tour de France win was a long and challenging one. It is a tale best told through the experiences of those who transformed the company from a five-person operation housed in a barn in Wisconsin 25 years ago, to a globally oriented company with distribution in 65 countries and over 1500 employees worldwide.

The vision of the company arose out of a meeting between Richard Burke, a former accountant with a knack for investments and Bevel Hogg, an owner of a Midwestern chain of bicycle stores. Burke had spent 15 years sharpening his business skills with a burgeoning appliance distributor, Roth Corporation in Milwaukee, Wisconsin. Hogg had grown tired of the retail business, but his heart remained with bicycles. Burke's passion for outdoor recreation and entrepreneurial spirit drew him to the bicycle market.

The year was 1975. Amidst a US energy crisis that aided a resurgence of the bicycle market, the timing was right. "Schwinn dominated the specialty retail market at the time, which is where most bikes were sold," said Burke. "But the mid-to-high end business was going to Japanese-made bicycles. We saw an opportunity to sell an American-made product in that category." Burke convinced Roth Corporation to fund the venture with \$100,000 in seed money, and Hogg provided the insight into the bicycle industry.

The duo chose to headquarter their new business in rural Waterloo, halfway between Burke's suburban Milwaukee home and Hogg's home in Madison. A humble, 7000-sq. foot barn, formerly a carpet warehouse, would serve as the launching pad for the company. After a hot debate, a name was selected one evening in a bar just outside of Waterloo. Hogg suggested Kestrel, and Burke Intrepid. They settled on Trek, a word derived from Hogg's native South Africa that was memorable and would later have global appeal. In 1976, Trek Bicycles was incorporated.

The five-man company began hand-building steel, touring framesets. Using proprietary cast lugs; Trek frames adopted a European brazing style with an American flare. "You could tell it was a Trek frame without the paint on it," said early frame engineer Tim Issac. "The company provided the designers with the tooling infrastructure and right materials to let us create. Trek was dominated by free spirits and I think it showed in our product." Selling for roughly \$275 per frameset, the brand quickly obtained cult status.

Now that the company had successfully distinguished itself from the competition, it needed a distribution channel to reach its customers. Trek's charter dealer was Penn Cycle, outside of nearby Minneapolis, Minnesota. Owner Elmer Sorenson recalled his first encounter with Trek. "One cold, winter, snowy, miserable February day some guy in an old rusty car drove up," said Sorenson. "It was Bevel with a frame over each shoulder."

"Road bikes were 75% of our business, and we were having some trouble with consistency of the Italian lines and a Californian line we were carrying. There was a need for a lightweight, advanced bike and Trek came through with it. And we liked the fact they were made in the USA."

Word of mouth spread and the company quickly gained market share from Japanese and European competitors. Trek's most successful salesman at the time, Tom French, soon took leave to follow his girlfriend west. By coincidence, the Trek dealer base began spreading from Madison, Wisconsin to San Francisco, California. In just three years, sales had grown to over

\$1,000,000. But the exponential growth was constrained by the small size of the facility. It was time for a move.

Trek didn't have to look beyond its backyard for the ideal location for its next facility. In 1980, for \$10,000, Burke purchased ten acres of land down the road from the red barn that Trek had called home for four years. The city of Waterloo rezoned the land from agricultural to industrial, the city founders financed the installation of sewers, and groundbreaking for the 26,000-ft. factory was underway. Yet the area's rural roots quickly put things back into perspective. "We were forced to temporarily delay production of the factory until the farmer that owned the land could harvest his corn for the season," said Burke.

The new facility's space allowed Trek to expand its frame-building capacity. Automation led to more frames, and an assembly line and paint factory were added to make Trek a full bicycle manufacturer. "It wasn't until we built the new factory that we became a business," said Burke. Shortly after, the company hired its first true sales reps and a customer service foundation was born. Sales doubled in 1981, and again in 1982. By 1983, the company had outgrown the current factory and attached an addition.

As Trek's business boomed, a movement was spreading on the West Coast. Renegades like Gary Fisher were bombing down their local mountain trails on stalwart bikes with balloon tires, amalgamations adorned with road bike and motorcycle parts. Looking to expand outside of the road touring market, the company took interest in these new "mountain bikes". But how would a company accustomed to touring the open, paved roads of Southern Wisconsin jump into the mountain bike craze?

Issac shipped a prototype mountain bike frame that mimicked a Trek road-touring frame in July of '83 to Harry Spehar, the West Coast territorial sales manager. Spehar, who had been riding old dirt trails in Northern California for years, took the prototype to the legendary Whiskeytown Downhill in Redden, California to race against the "Clunker" posse. The Midwestern anomaly held its own and Trek had officially begun its venture into mountain bikes.

By 1985, the company had reached sales of \$20,000,000. Yet growth in the fast lane caught up to the company and Trek was faced with a net loss for the second straight year. 1984 product hadn't sold to expectations and sub-par quality control was angering retailers.

To add fuel to the fire, a revolutionary bonding technology had all but halted the assembly line. "We built the first one, but we didn't know how to build the second one," said Spehar in reference to Trek's model 2000 aluminum bonded road bike. A company built on the foundation of brazed steel had undertaken the project of bonding aluminum tubes together with an aerospace-grade epoxy resin. Trek was at a crossroads.

"We had absolutely no focus, and we needed to get the water out of the boat," said Burke. "I thought it was time for a change." That change would be a more active role for Burke in the company's day-to-day operations. He was faced with three options: close the operation and liquidate the business, sell the company, or turn it around. "We decided to roll up our sleeves and get it done."

Hogg left the company and Burke searched for a mantra around which he could rebuild. He articulated a back-to-basics approach and came up with a mission statement – "To build a quality product at a competitive value, delivered on time; create a positive work environment for customers and employees; deliver a profit."

The fix that needed immediate attention was the product. "All the executives joined assemblers on the line to fix the bonding problem," recalled Spehar. "It said a lot about the company."

Burke's next priority was to turn around the customer service. He had learned the importance of the happy customer during his days in the appliance business. Burke became a pioneer of dealer advisory meetings in which he listened to his customers to give them the product they wanted. "What happens on the sales floor is as important as anything in this business," said Burke.

The first step taken to improve customer relations was the empowerment of a team of twenty-somethings that had doubled the newly created accessories business the previous year. The group, which included Burke's son John, would come to be known as the "Cub Scouts." "It was blind enthusiasm with adult supervision," said the elder Burke. Richard Burke came from the traditional school of thought, "If it ain't broke don't fix it;" the Cub Scouts chose to break it and make it better.

John Burke had followed the business intently at a young age. Over summer breaks during his college years, he would finagle his way into the sales department after his warehouse shift to cold call customers and sell product. When his father assumed a more active role with the company, the 24-year-old John was called in from his sales post in Colorado to head up the customer service department in Waterloo. "This was the Cub Scouts chance to get out of the cheap seats, and onto the playing field," said John. "The first role of leadership is to grab the reigns when somebody hands them to you."

Pat Sullivan was given the mission to expand the dealer base. "I told Dick I was going to add 200 dealers a year," said Sullivan. Richard Burke's response was, "If you reach 1000 dealers, I will put a statue of you in front of the building." The group aggressively pursued dealers and let it be known to all retailers, including their existing customers, that they were looking for business. "We were told we were going to piss off our current dealers, but the truth is, people wanted to do business with us," said John. In a few short years, Sullivan had reached his goal and a plaque that still resides in front of the facility in Waterloo was erected.

"Looking back on it, my father took a big gamble on us," said John. "But he looked at who we had, assessed our strengths, and placed us accordingly." Few personal accounts exemplify the success of the hire-from-within formula than that of Joyce Keehn. Keehn, originally hired on as a receptionist before the new regime, quickly worked her way up through customer service and currently holds the position of director of worldwide sales.

In the fall of 1988, John Burke made his first trip overseas to research the European bicycle business. "I remember thinking to myself that we could do very well here," said John. Keehn championed the effort to give Trek a global presence. "I was telemarketing to Canada, I guess I was the only one with any international experience," said Keehn. "We were flying by the seat of our pants, but our lack of experience gave us courage." Wholly-owned subsidiaries were subsequently assembled and the Trek international program was underway.

By the late eighties, Trek's aluminum bonded bikes had become a commercial hit. The technology was applied to a rapidly growing mountain bike market and the company took off. While the people remained the same, the face of Trek's product began to evolve. The company was making more mountain bikes than road by 1990, and engineers dabbled with the use of carbon composite tubes bonded to aluminum lugs.

At this time, the US government was cutting back on defense industry funding, forcing its hand to look elsewhere for business. Having perfected its bonding technology, Trek looked into other materials to lighten up their frames. The company sent Bob Read to Salt Lake City, Utah in 1990 to attend an aerospace industry show. It was here, where he came in contact with a carbon fiber molding company, Radius, forever changing Trek technology.

Read first met Richard Burke in the warehouse of his longtime employer, Roth Corporation. Soon after, Burke hired him on in a manufacturing capacity, and he quickly became the company's first quality control manager. He remained a calming influence in the engineering department before

assuming the role of director of technology. "I never met anyone as well organized as Bob," said Tim Issac. "He would take a problem and reduce it to the components that could be handled."

Read sat through product meetings in Waterloo with a carbon fiber tennis racket and pronounced, "this is the future of bicycles." He envisioned a full carbon Trek frame that would be the lightest and strongest the world had ever seen. Faced with the option of sourcing out the frames, or incurring the \$1,000,000 development cost of a carbon lug molding process, Richard Burke opted for the latter. He knew direct control of the new technology would be vital to its success.

Read's vision became a reality when Trek revealed the first OCLV (Optimum Compaction, Low Void) carbon fiber frame in 1992. "Optimum Compaction" is the precise way in which Trek compresses carbon fibers into an optimum blend of carbon fiber and thermoset epoxy matrix. "Low Void" represents the aerospace standard of minimizing voids within the laminate structure to a level of 1% or less. The result was the lightest road production frameset in the world, weighing in at a scant 2.44 lbs.

Two years later an automobile lost control on an icy Wisconsin road and took Read's life. An essential part of Trek's soul went with him that day. "Bob's combination of intellect and dedication was unlike anything I had ever seen," said Richard Burke. "He truly represented the honesty and integrity of this company. His passing left a void that we were incapable of filling for some time."

The company pressed on with startling financial success over the next few years. Trek had ridden the wave of the mountain bike, and by 1996 mountain bikes accounted for 80% of the company's product line. They invested heavily in research and design, employing the largest team of engineers in the business. The domestic dealer base had swelled to 1500. Thousands more around the world came on board through the seven subsidiaries and over 60 distributors. Overseas business had accrued to roughly a third of overall sales. Worldwide annual sales soared near the \$350,000,000 range.

Trek had quietly become the world's largest manufacturer of bicycles sold through specialty retail stores. But growth had hidden a lot of sins. By 1997, the bicycle market had flattened. John Burke stepped in and assumed the role of Trek President. "When the growth stops, it's time to manage the company," said John Burke.

Managing a mature company in a stagnant market forced management to reassess their identity. Were the guiding principles the same, had goals changed? "We took a long look at our mission statement and determined what was true ten to fifteen years ago, is still true today," said John Burke. "We built this business by meeting the needs of our customer, the retailer, and that's still our number one goal."

Today, Trek places greater emphasis on lean manufacturing. In the spring of 1999, Trek hired Tim Callahan as VP of Operations. Callahan brought with him a strong track record of success and the Japanese-inspired Kaizen philosophy. "Kaizen is a simple approach to manufacturing," explained Callahan. "It reduces working space and down time, and increases a natural flow of product." "Manufacturing has quickly become one of our assets," affirmed John Burke. "But like many of the challenges this company has faced throughout its history, internal change is an uphill battle."

Yet one of Trek's biggest opportunities for growth lies outside of the factory walls. "Our greatest potential lies in the international market," said John Burke. Cycling is engrained in the culture of many countries, especially in Europe where bicycles are used as a viable alternative form of transportation. This practical application translates into the sporting world where cycling is second only to soccer in fan base. Cycling's biggest event, the Tour de France, is the third most-watched sporting event in the world behind the Super Bowl and the Olympics.

The success of Armstrong and his USPS teammates in international cycling competition has gone a long way in building the awareness of the Trek brand. Their domination of the world's best cyclists aboard Trek OCLV frames has made the product one of the most sought after in the market. But the future success of Trek overseas, as well as stateside, hinges on more than professional racing and lightweight frames. "Through it all, it's never about brazed steel, bonded aluminum or carbon fiber. It was the people who got us here. And we continue to rely on those good people for success. The key is that this is an ongoing story, and we see the best days ahead of us," said John Burke.