

BY MICHAEL J. McDERMOTT

WHEEL WORKS

Riding the ups and downs of the bicycle manufacturing business

Creativity in business can be rewarded in many ways. Sometimes it's money, sometimes it's recognition, sometimes it's just the freedom that comes from marching to the beat of your own drum and managing to make a living at the same time.

Doug White has sampled all three of those rewards at various times. Early in its history, his company, White Industries Inc., generated substantial financial returns on the strength of the specialized bicycle parts White designs and manufactures. "We went from just myself and one other guy in 1988 to 25 employees four years later," he says. "We were making money like crazy."

But times change, and so do economies and competitive market conditions. Sometime around 1993, "it just stopped," White recalls. "Competition sprang up, everybody started doing what we had been doing, and sales fell by about half."

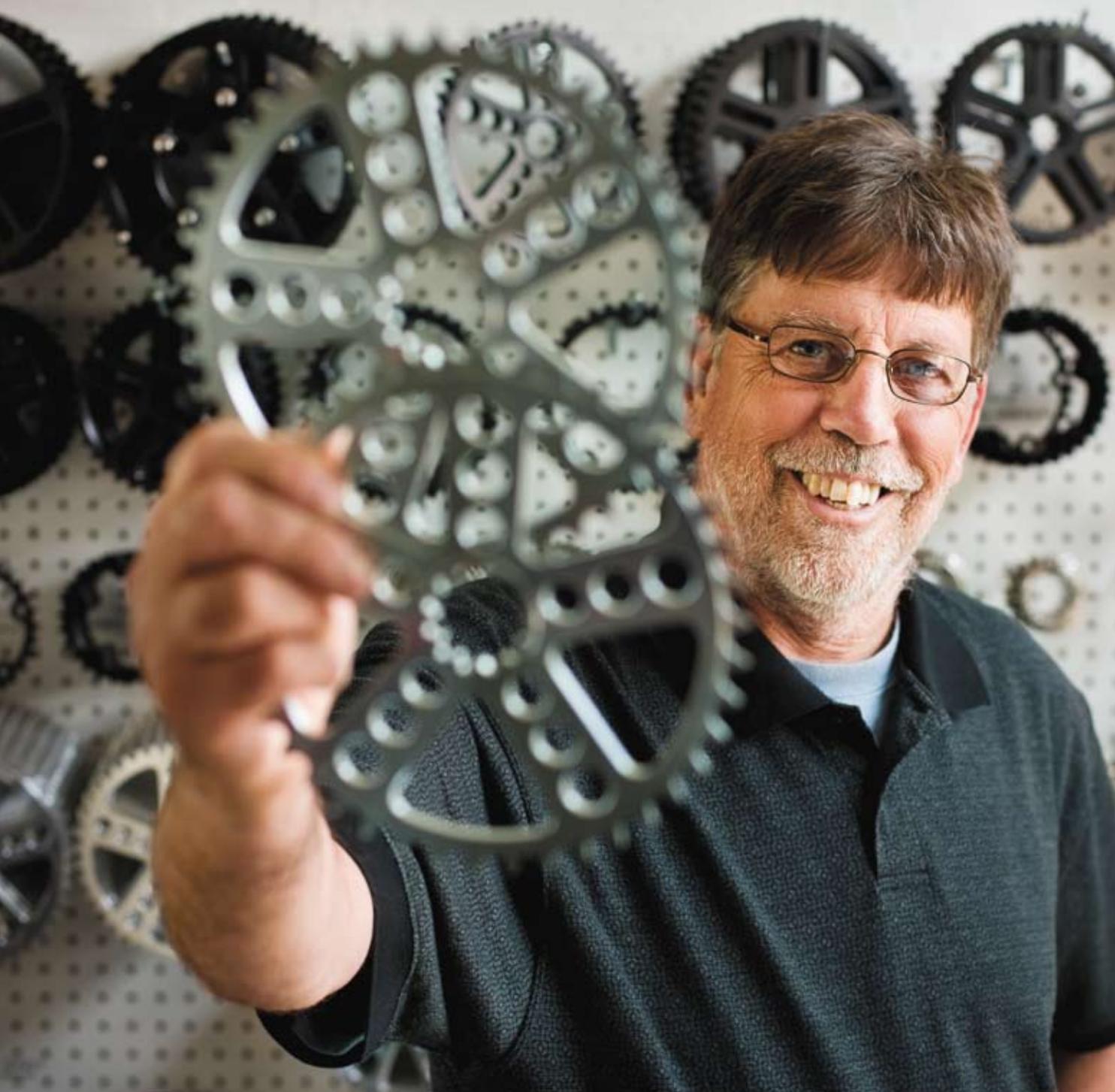
White's story needs to be told from the beginning to convey the full impact of what creativity has meant in his life and in his business. White says he got involved in the arcane world of specialized bicycle parts "somewhat by accident."

A machinist by trade, in the early 1970s White was attending college with an eye toward earning a teaching degree. A fellow student who worked at a bike shop decided to change jobs, and White took his vacated position. A cyclist himself (originally a road bike enthusiast, he later started mountain biking), he found the job a comfortable fit.

Part of his job involved building bikes and fabricating frames. He realized he was good at it and decided to hang out his own shingle in 1974. After four successful years of making steel bicycle frames, he sold that business to pursue a new venture.

He launched White Industries in 1978, initially to make leg bands, which cyclists use to keep their pants from fouling the bike's chain. Again, his business was successful, and he stayed focused on leg band manufacturing for the next 10 years. "It was a low-capital, high-volume business and a good cash generator," he says.

White didn't start designing and producing other parts until 1988, about the time mountain biking began to come into its own as a sport. One of his first customers was mountain biking pioneer Gary



Fisher, who is credited not only with creating the sport (after he was suspended from road bike racing because his hair was too long), but also with developing almost every major technical innovation to its equipment.

Fisher, whose company today is a division of Trek Bicycles, asked White to make some spindles and bottom brackets for his tricked-out mountain bikes. White quickly realized he had all the machine shop capabilities to do even more.

“I started making hubs, mostly because I had the machinery,” White says. He also had a knack for design, and he came up with the industry’s first lightweight, thread-on freewheel hub, a product that was revolutionary at the time. “That rocketed us to fame,” he says.

White acknowledges that luck, in the form of good timing, played a critical role in the period of his company’s greatest success. “There were no other lightweight cassette hubs on the market and no other American manufacturers at that time,” he says. That’s when White Industries grew from two employees to 25 in just four years, minting money the whole time.

But bust often follows boom, and when White Industries hit the wall in 1993, it hit hard. Competitors sprang up as what had been a niche business in manufacturing became more broad-based. Offshore suppliers began making cheaper versions of the products White had developed, and even though they were lower quality, the knockoffs took a toll on White’s business.

That could have spelled the end for the company, but White came up with a creative solution to keep it going. Because he had never outsourced any of the company's manufacturing, he had a lot of unused capacity when the bike parts market tanked. He began looking for other products White Industries could make, and he found them close to home.

Located in Petaluma, California, White Industries was well situated to serve as a parts fabricator for technology companies in nearby Silicon Valley, and that's just what it did throughout the tech boom of the 1990s. White kept the bike parts business going on a greatly scaled-back basis, but he relied heavily on contract manufacturing for other businesses to keep the company afloat.

Nonetheless, White continued to express his creativity during this period, in part by continuing to design radical new bike parts. While he found fulfillment in that activity, the experience also helped make him more hardheaded about business.

"I always do things backwards," White laments, only half-jokingly. "I decided I was going to make a derailleur that would be different from everything else out there. I designed it, went through the whole process of creating it, and decided to patent it."

A bicycle's derailleur system is analogous to a car's transmission. The derailleur moves the bike's chain from one sprocket (the equivalent of a gear) to another, making it easier to pedal uphill or to go faster on flat or downhill stretches. The shifter in a derailleur system typically uses a spring to move the chain back and forth.

"Mine was different," White explains. "I didn't use a spring to return; it was shifter-actuated both ways. No matter how muddy or dirty it got, it would always shift. The geometry was really good, and it shifted really fast."

White spent about \$15,000 designing, building, and patenting his new derailleur. It got rave reviews in the biking press and was widely hailed as an engineering marvel. The only problem was, nobody bought it.

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Just as timing had given such a boost to White Industries in 1988, it played the opposite role when White tried to introduce his new derailleur in the late 1990s. "It was 1996 and '97, and it was just a bad time in the bike business," he says. "There were a number of other really good new products introduced around the same time, and none of them went anywhere."

White took a monetary hit on his derailleur adventure, but he didn't walk away empty-handed. "I learned a valuable lesson," he says. "Don't spend a whole bunch of money developing a new product until you know if it's going to sell. Like I said, I do everything backwards—or at least I used to."

White's learned other lessons navigating the tricky waters of the specialty cycling market. An important one has to do with leverage. During the company's rapid expansion, it incurred debt to expand operations and buy new machine tools. When the bottom of the market dropped out, the debt was still there.

"One of the most painful things in the world is when you're sitting on top of a happening business and the sales fall off," he says. "You have to start dipping into savings to pay the bills, and you're looking at the possibility of going out of business."

Having learned from that experience, the company has never borrowed a lot of money again. "They make it easy to borrow, but lenders don't fool around when it comes time to pay," he ruefully observes.

White Industries shifted its focus back to the bicycle business about eight years ago. But it is a different company today, one that in many ways more accurately reflects the value system of its founder. It does about half the volume it did at its peak, but it is a much better company today, White feels. "We are more organized and can run the business with fewer people," he says.

Perhaps most important to White, the company's focus is once again centered squarely on creativity. He continues to design and create new products for White Industries to manufacture, and the company focuses its sales and marketing efforts on the world of specialized bike shops.

"We have to find our little nooks and crannies," White says. "The way for us to be successful is to keep coming up with products that the people who work at bike shops want to have for themselves. Then, when a customer walks into the bike shop and asks what spindle or cassette hub he should get, the guy in the shop says, 'This is what I have on my bike.' That's what it's about for us as a company."



And what it's about for White, personally, is creativity first and foremost. "One of the greatest things in life is when you go through the process of thinking up something new, figuring out how to make it, and then you show it to someone and they want to buy it," he says. "That is pretty cool. You order the steel, you start cutting it—that never gets old."

Michael J. McDermott, a freelance writer specializing in business and technology, is based in Carmel, New York. Businesses profiled in this column are clients of the Northwestern Mutual Financial Network. White Industries is a client of Financial Representative Jeff Judson and Associate Financial Representative Andrew Miner of Walnut Creek, California. If you would like to suggest a business for profiling, please contact Creative Living editor Catherine O'Neill Grace at coneillgrace@themagazinegroup.com.