

Fit for Growth

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By Mr. OSCAR CHUNG

Fitness equipment manufacturers in Taiwan are teaming up to advance the industry.

Sweating over an exercise bike, jogging on a treadmill or working out on an elliptical machine often provides the only opportunity for busy urbanites to maintain a reasonable degree of physical fitness. Those who rely on such equipment to increase their heart rate and burn off calories might not realize, however, that there is a good chance that it comes from Taiwan.

Giant Chang (張啟人), director of the Corporate Synergy Development Center's (CSD) office for central Taiwan, is tasked with making sure the country's exercise equipment manufacturers are able to continue providing the products relied on by fitness buffs around the world. The CSD is a nonprofit organization that receives 50 percent of its funding

from the Republic of China government and works to promote the development of various industries by integrating resources.

To boost the development of Taiwan's fitness equipment sector, in May 2011 the CSD and several other nonprofits began working with Peter Lo (羅崑泉), founder of Johnson Health Tech Co., to form an industry alliance called the S-Team. Chang's work with the S-Team involves inspecting the factories of member companies and providing advice on improving their operations, as well as visiting manufacturers to invite them to join the alliance. "This sector is likely to decline in Taiwan if

we don't pay enough attention to its future," Chang says. "The S-team's purpose is to help the local fitness equipment industry upgrade its business practices so it can remain competitive."

Juggling the various elements of his job keeps Chang extremely busy. During a hectic day in mid-April this year, for example, his schedule included visiting a fitness equipment manufacturer in



The S-Team promotes Taiwan's fitness equipment at the International Sporting Goods Show in Munich, Germany early this year. The one-year-old team's 14 members work together to upgrade the local fitness equipment industry. (photo courtesy of taiwan sporting goods manufacturers association)

southern Taiwan in the morning and then making trips to two others in central Taiwan later in the day.

According to a 2007 report for footwear giant Reebok International Ltd., 70 percent of all global fitness equipment sales are made to home buyers, with the remaining 30 percent going to fitness clubs. In 2011, Taiwan's fitness equipment sector exported products worth US\$632.7 million, or 41 percent of the revenue generated by all sporting goods products shipped abroad. According to Chang, around two-thirds of worldwide sales of such equipment currently take place in the United States. Statistics from the Taiwan Sporting Goods Manufacturers Association (TSMA), which helps manage the S-Team, show that in 2011 the United States imported around US\$1.55 billion in fitness equipment. Products made in Taiwan accounted for about 20 percent, or US\$310 million, of US imports that year, while those made in mainland China claimed 70 percent.

The amazing 90 percent share of the US market held by Taiwan and mainland China in 2011 "is due to the cluster effect, which makes the big manufacturers even more dominant," says Michael Lin (林英俊), president of Dyaco International Inc., an S-Team member with a manufacturing base in Changhua County, central Taiwan. The term cluster effect refers to the gathering of an entire industrial production chain—from upstream component makers to

manufacturers of finished

products—in a single geographic area. Lin notes that fitness equipment clusters remain relatively intact in Taiwan and mainland China compared with other countries around the world.

Taiwan's current position in the fitness equipment market is a continuation of the country's more than four decades of experience in manufacturing sporting goods. "Taiwan was initially known for its production of tennis rackets for pros," says George Wood (吳品盛), chairman of the Taiwan Sports Technology Association (TSTA). By 1973, the local production value of balls, baseball gloves, fishing and hunting equipment and rackets exceeded US\$60 million.

Local companies began making fitness equipment in 1980 on an original equipment manufacturing (OEM) basis, according to the TSMA. By around 1990, some of the world's biggest brands were inking OEM contracts with Taiwanese partners to produce fitness equipment. As the 1990s went on, local enterprises began helping their customers design products, a cooperative effort known as original design manufacturing (ODM). Moving into ODM work gave Taiwanese companies a competitive edge in an increasingly crowded market. The 1990s also saw local fitness equipment companies join other labor-intensive industries in moving part of their production capacity to mainland China.



Fitness equipment manufacturing surpasses all other sectors of Taiwan's sporting goods industry in export value. At present, most local companies compete in the high end of the market to distinguish their products from those made in mainland China. (Photo Courtesy of Dyaco International Inc.)

Taking the Next Step

In time, local enterprises turned their attention to taking the next step—operating their own brands. Johnson, which began producing OEM fitness equipment in 1975 in Taichung, central Taiwan, started turning out branded products in 1996. Johnson is now the industry's third largest original brand manufacturer worldwide. The top three are Western enterprises, with US-based Icon Health & Fitness Inc. occupying the No. 1 spot.

In 2000, fitness equipment manufacturing in Taiwan surpassed golf equipment production to become the top export revenue creator in the country's sporting goods industry. That year also saw Taiwan claim 36 percent of all imported fitness equipment in the United States in terms of value.

The S-Team is not the first manufacturers' alliance which the CSD provides counseling service. In 2002, for example, the nonprofit launched the A-Team to promote the development of Taiwan's bicycle manufacturing industry. Led by world-class businesses Giant Inc. and Merida Industry Co., the A-Team aims to make Taiwan a manufacturing hub for mid-market to high-end bicycle products. In measuring the A-Team's success, Chang says that while local bicycle manufacturing has not grown a lot in terms of the number of bikes produced since the alliance was formed, production value has quadrupled.

The CSD built on its efforts with the bicycle industry to form the M-Team for machine tool makers in 2006 and the T-Team for hand tool manufacturers in 2008. The S-Team is the CSD's most recent initiative and currently boasts 14 members. Among them, Johnson, Dyaco and three others focus on the production of finished fitness equipment, while the remaining members manufacture components. For now, the S-Team's five finished product makers take turns in opening their factories to other members once every three to four months, thereby fostering exchanges on management practices and factory operations. "All of our teams work to build mutual trust and provide channels for learning by meeting at members' factories on a regular basis," Chang says.

In addition to helping companies learn from each other, the CSD provides guidance and advice. To do so, the nonprofit has developed a baseline list of manufacturing and management requirements that S-Team members should meet. About eight members were expected to apply to evaluate their own progress toward meeting the requirements in June this year before a follow-up inspection by a group of experts. Companies receive certification from the CSD for meeting all the requirements. "We do the evaluations to avoid having companies that are only interested in being on the team, but not in upgrading themselves," Chang says. Meanwhile, the CSD is considering the establishment of a mechanism that would force companies that perform poorly to leave the team, he adds.

The S-Team also helps members market their products efficiently by creating a joint display area at international trade fairs. At the International Sporting Goods Show in Munich, Germany early this year, for

example, team members collectively displayed their products at an independent pavilion. “The pavilion’s stylish design and huge S-Team logo made it really eye-catching,” TSMA secretary-general Jane Wen (溫麗雪) says. “Many international buyers approached it, asked about the story behind the team and took a careful look at our exhibits. We looked at it as a successful first step in the effort to help S-Team members enter international markets.”

Fitness equipment manufacturers receive assistance from sources other than the S-Team and the CSD. To encourage innovation in product design, for example, since 2003 the TSMA has coorganized a contest in which corporate participants compete for awards that recognize innovation in eight sporting goods categories. The contest is part of the Taipei International Sporting Goods Show, which has been Taiwan’s top trade fair for the industry since 1974. This year’s competition saw a total of 29 sporting products contending for awards, 18 of which were entered in the fitness equipment category.

In 2008, the TSTA launched a contest for students to encourage the creation of innovative concepts that show production potential. Mainland Chinese students have been allowed to enter that competition since 2011. “Sometimes enterprises can be too conditioned by their own experiences to be truly innovative, so we started the competition to seek inspiration in students’ crazy ideas,” the While the S-Team is helping members improve their products and operations, Taiwan’s fitness equipment industry continues to face a number of obstacles, one of which is a lack of standardized components. “When manufacturers opt for components of the same specifications and buy them in bulk, they can reduce costs and increase their competitive edge,” Chang says.

While such benefits may be alluring, S-Team members have found standardization quite challenging, as they often have to make custom parts to meet the specifications of international clients. “I think most manufacturers also operate as ODMs to a certain extent, which means they have the latitude to design their own components,” Chang says. He remains hopeful about



Dyaco International Inc. is endeavoring to tap a new market by repurposing some of its fitness products for patient rehabilitation.
(Photo Courtesy of Dyaco International Inc.)

making progress in the area, however. While the team’s manufacturers designed components separately in the past, the S-Team now provides a shared platform for standardization work. “It will take time, but at least we’re moving in the right direction,” he says.

The Footwear and Recreation Technology Research Institute, a nonprofit organization partially financed by the government, is helping to speed up the



A fitness equipment showroom at Rexion Industrial Corp.'s headquarters. Rexion believes that product quality has a bigger impact on revenues than any other factor.

(Photo by Chang Su-ching)

standardization process. To do so, the institute works with manufacturers and the Bureau of Standards, Metrology and Inspection under the Ministry of Economic Affairs. One of the institute's standardization efforts involves identifying existing key components that can be shared throughout the industry, while another seeks to establish specifications applicable to all fitness equipment. The specifications are expected to be announced later this year.

Some S-Team members are attracted to producing branded fitness equipment because such products generate higher revenue than those from contract manufacturing. To get a head start on branding, a few alliance members have purchased existing brands to establish a presence in the market. Johnson, for example, bought the Vision fitness equipment division of a longtime American customer in 1996 and continues manufacturing products under that brand today. Dyaco followed a similar route by acquiring the more than 30-year-old Spirit brand from a US company in 2008. Dyaco is now working to breathe new life into the Spirit brand by developing equipment devoted to patient rehabilitation. To do so, the company is repurposing and upgrading some of its existing fitness products by seeking the input of biomechanical engineers and electronics manufacturers. "The major job is upgrading the electronic components, which could help the products fetch a much higher price," Lin says. Dyaco plans to launch the first

Spirit rehabilitation model later this year.

While buying a brand offers a shortcut, building one from scratch is a much more arduous undertaking. "It requires a great amount of effort and burns through a lot of money to move from zero to even a little bit of name recognition," Lin says. Dyaco's recent experience with that trying process led to the creation of the iPower brand of collapsible treadmills, which are made for home users and began appearing on the domestic market in spring this year.

The huge amount of resources involved in branding causes some in the industry to question its necessity altogether. "Branding efforts really help generate revenues in sectors where there's a broad consumer base, such as in the sneaker market. But that's not the case when it comes to fitness equipment," the TSTA's Wood says.

The Branding Debate

Rex Wang (王冠祥) is president of Rexion Industrial Corp., which is based in Taichung and has been a contract manufacturer of fitness equipment for several international brands since the mid-1990s. Wang points out that a company does not

necessarily have to establish brands to succeed. “The Taiwan Semiconductor Manufacturing Company [TSMC] has never had its own brand, but all the big brands in the world work with it,” he says. TSMC is based in Hsinchu, northern Taiwan and is the world’s largest contract chip manufacturer.

In terms of generating revenue, Wang believes product quality has a bigger impact than all other factors, including branding. “We are rewarded with high profits by making high-end products,” he says. “If you stay at the low end, you have to compete with many other contractors and struggle in a price war.”

Lin sees both sides of the branding argument. For now, he concurs with Wood and Wang’s assessments, saying that brand recognition still does not play a crucial role in consumer fitness equipment purchases. He notes, however, that the industry is relatively young and believes that long-term branding efforts will grow in importance as the sector matures.

As with branding, the need to protect proprietary information also poses a challenge for the development of the S-Team, as membership brings an obligation to open factories to other manufacturers. Rexion chief executive officer Casey Wang (王坤復) notes that all of his international clients prohibit the release of any information about their products until the items enter the market. “We’ve made a promise to them,” he says. “They’ll lose trust in us if we make the production process public.”

During his visit to Rexion in mid-April this year, Chang proposed a solution for maintaining client confidentiality while enabling the company to participate in the S-Team. Rexion could design a carefully planned route for visitors to its factory, he suggested, which would help the company maintain security in highly sensitive production areas while allowing access to others. Rexion’s preliminary response to the routing idea was positive and at press time, Chang said the company was very likely to join the team.

Chang’s hard work to convince companies like Rexion to become members of the S-Team comes from a desire to solidify Taiwan’s place in the increasingly competitive fitness equipment market. “People in the industry should work together to make it stronger,” he says. “We’ll only be able to call the S-Team a success when international buyers think of it whenever they seek high quality products.”



Dyaco’s booth at this year’s Taipei International Sporting Goods Show. Dyaco is one of several fitness equipment makers in Taiwan that are developing their own brands. (Photo Courtesy Of Taiwan Sporting Goods Manufacturers Association)