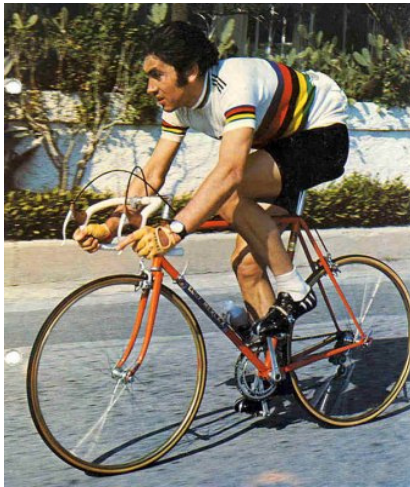


ifs School of Finance Student Investor Challenge 2009
National Final

Business Challenge

Time allowed: 60 minutes

About Velocidade



Velocidade is Portugal's leading performance bicycle manufacturer with over 40% of the Portuguese market and good sales in many other European countries including Spain, France and Germany. It manufactures and sells a range of high-end racing bicycles aimed at cycling professionals and enthusiasts.

Velocidade was founded in 1964 by Enrique Verelo, a former cycling champion, who began making racing cycles by hand in his garden shed after he retired. The cycles became highly regarded for their design, speed and reliability and quickly became so popular that Enrique had to move out of his garden shed into a small factory and employ others to meet demand.

This trend continued for many years until in 1995 Enrique passed away, leaving the company to his son. With demand still outstripping supply, the decision was taken at this point to introduce an automated manufacturing process. Unfortunately this decision resulted in a dramatic reduction in the quality at Velocidade cycles, and they soon developed a reputation for unreliability and technical problems which ultimately drove huge numbers of customers away.

Velocidade in the UK

During the bad times sales of Velocidade bicycles in the UK dropped off to almost nothing and the company stopped importing to the country in 1999.

As a result, the UK market's perception of the company is extremely poor. For example UK cycle enthusiasts often refer mockingly to the company as 'Velocibad' and the brand has become the target of numerous well known jokes such as 'How do you get a Velocidade up a hill?', 'Put it in the back of a car'.

The future looks bleak for Velocidade although they still have some loyalty amongst real enthusiasts, partly out of respect for Enrique Verelo.

Cyclomax

You are the management team of Cyclomax, one of the largest cycle manufacturers in the US but which is relatively unknown in Europe. You are considering making an offer for Velocidade, and using your manufacturing processes to improve the quality and reliability of Velocidade cycles. It would take a lot of investment, but you believe you could re-establish Velocidade as one of the leading brands across Europe and your key target market of the UK.

Task 1

Identify some of the advantages and disadvantages for Cyclomax in taking over Velocidade.

[10 Marks]

Task 2

Identify some of the advantages and disadvantages for Velocidade in being taken over by Cyclomax.

[10 Marks]

Task 3

What questions do you think your shareholders might ask you about the proposed merger?

[20 Marks]

Task 4

If you did takeover would you want to keep the Velocidade name? Explain your reasons.

[10 Marks]

Velocidade owners have in fact stipulated that after any takeover the Velocidade name must be kept. Marketing and promoting Velocidade cycles in the UK will be a significant challenge as the market has a deeply ingrained negative perception of the brand.

Task 5

(a) How will you market the product to the intended audience and attempt to change their opinion of Velocidade products?

(b) Give an example of marketing materials you would use. (You may use of the materials provided including the laptop, or you may wish to describe a TV / radio / internet advertising campaign).

[25 Marks]

Task 6

At Cyclomax you know that you make a considerable proportion of your profits from sales of cycling accessories. You have a limited budget for the production of these goods to accompany the Velocidade brand. Describe your top three accessory ideas and state why they would be your priorities.

[25 Marks]