

## Case 8

### HARLEY-DAVIDSON, INC., JANUARY 2001<sup>1</sup>

*You've shown us how to be the best. You've been leaders in new technology. You've stuck by the basic American values of hard work and fair play...Most of all, you've worked smarter, you've worked better, and you've worked together...as you've shown again, America is someplace special. We're on the road to unprecedented prosperity...and we'll get there on a Harley.*

President Ronald Reagan, speech at Harley-Davidson plant, York, Pennsylvania, May 6, 1987

*The recovery of this company since the 1980s has been truly remarkable. When you were down in the dumps, people were saying American industry was finished, that we couldn't compete in the global economy, that the next century would belong to other countries and other places. Today, you're not just surviving -- you're flourishing, with record sales and earnings; and one of the best-managed companies in America. According to management and labor, one of the reasons you're the best-managed company in America is that you have a genuine partnership between labor and management, where all employees are valuable and expected to make good decisions on their own for the benefit of the common enterprise. And I thank you for setting that example. I wish every manufacturer in America would model it.*

President Bill Clinton, speech at Harley-Davidson plant, York Pennsylvania, November 10, 1999

*It's one thing to have people buy your products. It's another for them to tattoo your name on their bodies.*

Harley-Davidson web site

### JANUARY 2001

“What a start to the new decade!” thought chairman and CEO Jeff Bluestein as he reviewed Harley-Davidson’s full year financial results for Year 2000. He had known for some time that Year 2000 would be another record year for the company—the 15<sup>th</sup> in succession—but these results not only beat the company’s own projections, but also those of most Wall Street analysts. Revenue for the full year was \$2.91 billion, 18.5 percent up on 1999. Earnings-per-share were \$1.13, a 31.1 percent increase on 1999. And, for the first time in its history, Harley-Davidson (H-D) had produced over 200,000 bikes. What a contrast to the dark days of the early 1980s when H-D emerged as a fragile, run-down, debt-laden management buyout.

The start of the new decade had been marked by a number of significant developments in H-D’s continued development. In terms of product development, the new single-cylinder Buell Blast had been successfully launched—H-D’s first venture into smaller motorcycles in three decades. In operations and supply-chain management, H-D had continued to invest in state-of-the-art manufacturing systems, information systems, quality management, and supplier relationships. H-D had continued to develop its dealer network with new services, such as Rent-a-Harley, and internet linkages between the company, its dealers and its customers. Year 2000 also saw H-D increasing its overseas presence, notably in Europe, Latin America, and Asia.

Yet, as Bluestein looked ahead to Harley’s centenary celebrations to be held in a mere two years’ time, he recognized that his primary task was to combat complacency within the company. H-D’s succession of record-breaking results had coincided with America’s longest ever peacetime expansion. As the economic storm clouds gathered in January 2001, Bluestein wondered what the impact would be on the demand for leisure products priced in the \$6,000 to \$20,000 range. As for competition, Harley had demonstrated its ability to hold its own against similarly-styled V-twins produced by the Japanese and by the smaller upstarts such as Polaris, Big Dog, and Excelsior—they might be able to replicate the look of the Harley Hog, but none could replicate the “Harley Experience”. But what if motorcycle riders began to look for a different type of experience? H-D’s share of the heavyweight market fell slightly in 2000. Could it be

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that the appeal of the heavyweight cruiser was declining, and buyers were moving more towards the European-styled sports models produced by Ducati, Aprilla, Triumph, and BMW, or towards the high-performance Japanese machines? Longer term there were the demographic trends. Harley's popularity was closely associated with the baby-boom generation. As this generation aged, so were Harley's customers. How would Harley appeal to younger generations?

## **THE HISTORY OF HARLEY-DAVIDSON**

### **1903-1945: From Garden Shed to Mass Production**

Harley-Davidson, Inc. was founded in 1903 by William Harley and brothers William Davidson, Arthur Davidson, and Walter Davidson. At the time of the company's founding, a motorcycle was no more than a bicycle with a small motor attached. Harley's 1903 model was made in the Davidson family shed and had a three-horsepower engine. In 1909 Harley introduced its first two-cylinder, V-twin engine, featuring the deep, rumbling sound for which Harley motorcycles are known today.<sup>2</sup> Henry Ford's assembly-line concept (1913) and wartime orders pushed Harley out of the small-scale craft shed and into an era of mass production. In 1921 a Harley motorcycle won the first race in which machines reached speeds of over 100 miles per hour. This same year, H-D's new model featured a front brake and the distinctive Harley tear-drop gas tank. Large-scale production and continued technical development caused the industry to consolidate: in 1910 there were some 150 US motorcycle producers, by 1929, Indian, Excelsior, and Harley accounted for the majority of US motorcycle sales. The Great Depression killed Excelsior, and Indian closed in 1953, leaving Harley the sole American manufacturer of motorcycles. Table 8.1 shows H-D's production over the century.

[Table 8.1 about here]

### **1945-1980s: Cycle of Growth & Decline**

The post-war era was one of opportunity and problems. Post-war affluence and the rise of youth culture created a growing demand for motorcycles. However, this was satisfied primarily by imports. By 1959, Harley was still market leader with sales of \$16.6 million, but British imports amounted to about 30,000 bikes a year with BSA, Triumph, and Norton taking 49 % of the US market.<sup>1</sup> In 1959, Honda entered the US market. The result was the rebirth of motorcycling in the U.S. Although H-D initially benefited from the rapid expansion of the market, soon Honda and the other Japanese producers moved up-market into the heavyweight sector. In 1969 Honda introduced its four-cylinder the CB750, a huge technical advance on anything produced by H-D or the British. In the same year, H-D was acquired by AMF, which proceeded to expand production capacity with the building of the York, Pennsylvania assembly plant. Boosting capacity to 75,000 units annually had disastrous consequences for product quality. A company audit in the mid 1970s revealed that more than half the cycles coming off the line were missing parts.<sup>2</sup> By the end of the 1970s, Honda had replaced H-D as market leader in heavyweight motorcycles in the U.S.

### **1980s – Present: From Buyout to Boom**

In 1981 H-D's senior managers, led by Vaughn Beals, organized a leveraged buyout. Harley emerged as an independent, privately owned company, but heavily laden with debt. The buyout coincided with one of the most severe recessions of the post-war US economy and, especially troublesome for a highly leveraged business, a soaring of interest rates under the Fed's tight monetary policies. Registrations of heavyweight motorcycles fell during 1981 and 1982 while Harley's own sales plummeted. By 1982 its sales of bikes were down by more than a third from 1979. During 1981 and 1982, Harley-Davidson lost a total of \$60 million. Redundancies came thick and fast with 30 percent of the office staff dismissed and similar cutbacks among hourly workers.

The company's first priority after the buyout was to systematically rebuild production methods and working practices with a view to cutting costs and improving quality. The new Harley management team had visited several Japanese auto-manufacturing plants and carefully studied Toyota's just-in-time (JIT) system. The first few years after the buyout also saw a revolution in Harley's production methods. Less than four months after the buyout, Harley management began a pilot JIT inventory and production-scheduling program called "MAN" (Materials As Needed) in its Milwaukee engine plant. The objective was to reduce inventories and costs and improve quality control. Within a year, all H-D's manufacturing operations were being converted to JIT: components and sub-assemblies were "pulled" through the production system in response to final demand.

During these dark days of the early 1980s, H-D sought sanctuary from Japanese competition. In 1983, President Ronald Reagan increased tariffs on large Japanese motorcycles from 4.4 % to 49.4 %, an increase that was to be in effect for five years and declined each year. Even with protection, H-D flirted with bankruptcy between 1984 and 1986. By 1987, the restructuring measures and operational improvements began to pay off. With stronger sales and a successful round of \$49 million in debt financing, H-D's financial condition stabilized. Between 1986 and 1990, Harley's

share of the heavyweight market expanded steadily from about 30 percent to over 60 percent, with demand outstripping production. During this time, management improved the quality and reliability of its product, and began to explore growth opportunities in retail clothing and international sales.

The 1990s saw year-on-year uninterrupted growth in the heavyweight motorcycle market and continued increase in H-D's market share. The company's biggest challenge continued to be balancing production capacity with surging demand for its product. In order to overcome this constraint, in 1996, the company announced the ambitious Plan 2003. Plan 2003 was a vision to dramatically increase production capacity over eight years by the company's 100<sup>th</sup> anniversary. By implementing Plan 2003, Harley hoped to capture some of the surging international demand in the heavyweight motorcycle market. Table 8.2 shows the growth of Harley registrations and market share during the 1990s.

[Table 8.2 about here]

## THE HEAVYWEIGHT MOTORCYCLE MARKET

The heavyweight segment (650ccs and over) has been the strongest growing part of the world motorcycle market during the decade up to 2001, with the US accounting for a major part of this growth. The total volume of heavyweight motorcycles sold increased from 322,400 units in 1991 to 719,506 in year 2000. The U.S. is the largest market for 650+ cc motorcycles, representing 51% of the total volume in four major markets. During the period the rate of expansion accelerated from 7.4 percent in 1995 to 22 percent in 2000.

Apart from North America, Europe, Japan and Australia account for the majority of the remaining worldwide market for 650+ cc motorcycles. Europe is the second largest heavyweight market, representing 40 percent of the market outside of the US. It grew at an annual rate of over 8 percent during 1995-99, but experienced a decline in year 2000.

H-D gained market share up until 1998. However, during 1999 and 2000, Harley's ability to grow market share was hampered by its inability to meet demand. H-D is the clear leader in the US market, where it held 46.3 percent of the heavyweight market in 2000. In Europe, H-D has grown its market share from 5.6 percent in the early 1990s to 8.4 percent in 2000.

The heavyweight motorcycle market comprises three segments:

?? **Cruiser motorcycles** are "big, noisy, low riding, unapologetically macho cycles"<sup>3</sup> typically with V-twin engines and an upright riding position. Their design reflects the dominance of styling over either comfort or speed. For the urban males (and some females) in Los Angeles, New York, Paris, and Tokyo, the cruiser motorcycle is practical transportation in congested metropolises, but is primarily a statement of style. The cruiser segment was practically created by Harley and is the most prevalent in the US market, representing 56.6 percent of total 650 cc units. Other market sales are comprised of 21.1 percent of sales in the Touring segment and 20.4 percent of Performance market. Most of the bikes in this segment feature V-twin engines, many with cylinder capacities that exceed those of a small family car. Harley's major competitors in the cruiser segment include Japanese companies with models based upon traditional Harley design (Honda's Shadow range, Yamaha's Virago, the Suzuki Intruder, and Kawasaki's Vulcan).

?? **Touring bikes** include cruisers specially equipped for longer-distance riding and bikes specially designed for comfort over long distance (including the Honda Goldwing and the bigger BMWs). These tourers feature luxuries such as audio systems, two-way intercoms, and heaters. Competitive threats exist for Harley-Davidson in the touring bike segment; Honda and BMW have engineered their motorcycles for greater smoothness and comfort through the use of multi-cylinder, shaft-drive engines.

?? **Performance models** are based upon racing bikes. These are high-technology, high-revving engines with a heavy emphasis on speed, acceleration, and race-track styling; minimal concessions are provided to rider comfort. The segment is the most important in the European and the Asian/Pacific market, representing 61.7 percent and 66.2 percent of total 650 cc units respectively. The segment is dominated by Japanese motorcycle companies, with a significant representation of European specialists such as Ducati and Triumph. H-D entered the performance segment in 1993 through its involvement in the formation of Buell Motorcycles, a company it fully acquired in 1998.

In North America, H-D dominates the cruiser and touring segments of the heavyweight market, internationally it is Honda leads in the heavyweight market—as it does in most other segments of the motorcycle market. However, the conventional segmentation into lightweight, middleweight, and heavyweight does not clearly define H-D's market. H-D's strength lies not in the heavyweight motorcycle market, but in just one part of this: the *super-heavyweight* segment, comprising bikes with cylinder displacement of more than 850cc. In the 650–850cc range, the Japanese dominance is nearly as great as in the lightweight and middleweight markets. Table 8.3 shows heavyweight market shares of the leading motorbike producers.

[Table 8.3 about here]

## HARLEY-DAVIDSON IN 2001

### The Brand

The Harley-Davidson image and loyalty it engenders among its consumer base is undoubtedly the company's strongest assets. Harley-Davidson is an the archetypes of American style. The famed spread eagle signifies not just the brand of one of the world's oldest motorcycle companies, but an entire lifestyle that it is associated with. Harley has been described as "the ultimate biker status symbol...a quasi religion, an institution, a way of life."<sup>4</sup> Like Walt Disney, H-D has a unique relationship with American culture. The values that Harley represents—individuality, honesty, freedom—can be traced back to the cowboy and frontiersman of yesteryear, and before that to the motives that brought people to America in the first place. As the sole surviving American motorcycle company from the pioneering days of the industry, H-D represents a tradition of US engineering and manufacturing.

This appeal of the Harley image and tradition has been central, not just to H-D's marketing, but to its strategy as a whole. The central thrust of the strategy has been reinforcing and extending the relationship between the company and its consumers. H-D has long recognized that it is not selling motorcycles, it is selling the Harley experience. Prominent in H-D's annual reports of recent years have been pictures and prose depicting the Harley Experience:

A chill sweeps though your body, created by a spontaneous outburst of pure, unadulterated joy. You are surrounded by people from all walks of life and every corner of the globe. They are complete strangers, but you know them like your own family. They were drawn to this place by the same passion—the same dream. And they came here on the same machine. This is one place you can truly be yourself. Because you don't just fit in. You belong.<sup>5</sup>

If the appeal of the Harley motorcycle is the image it conveys and the lifestyle it represents, then the company must ensure that the experience matches the image. To increase H-D's involvement in its consumers' riding experience it formed the Harley Owners' Group in 1983. Through HOG, H-D became involved in organizing social and charity events, and employees, from the CEO down, were encouraged to take an active role in HOG activities. HOG's web site describes the kind of emotion and atmosphere that the company is trying to deliver to customers through its HOG organization: "the feeling of being out there on a Harley-Davidson motorcycle links us like no other experience can. It's made HOG like no other organization in the world...The atmosphere is more family reunion than organized meeting." By becoming a HOG member, riders get a company pin and patch, a membership card, and a HOG atlas as well as a host of membership benefits including the *Hog Tales Magazine*, a bimonthly newsletter. The continued growth of the Harley Owners' Group throughout the 1990s was particularly important encouraging repurchase and upgrading by Harley owners. In 1999, 49 percent of Harley purchasers had owned a Harley previously, 30 percent were switching from other motorcycles, while 21 percent were first-time motorcycle buyers.

Throughout the 1980s and 1990s a key challenge for Harley was to extent the loyalty and passion of traditional Harley owners, typically blue-collar men in their 20s and 30s, to a more affluent, up-market consumer group with the spending power to buy top-of-the-line, ready-customized Harleys. By the mid-1990s, the H-D's customer base had shifted substantially towards this older, more affluent segment began to bear fruit. In 1999, the median income of a Harley owner was \$73,800, up from \$38,400 in 1987. The average age grew to 44.6 in 1999, up from 34.7 in 1987, as aging baby boomers became the loyal H-D consumer base. Meanwhile, by 1999 9 percent of Harley consumers were female, up from 2 percent in 1987.

### The Products

Broadening Harley's market appeal had major implication for product policy and design. The Harley image is linked closely to its big, throaty, V-twins. Ever since its disastrous foray into small bikes during the AMF years, Harley had recognized that its competitive advantage lies in the super heavyweight segment. Here it has stuck resolutely to the classic styling that has characterized Harleys since its early years. At the heart of the H-D motorcycle is the air-cooled V-twin engine that has been Harley's distinctive feature since 1909. Harley's frames, handlebars, fuel tanks, and seats, also reflect traditional designs.

H-D's commitment to traditional design features may be seen as making a virtue out of necessity. H-D's smaller size and scale compared to its competitors limited its ability to invest in technology and new products. As a result, H-D lags far behind its competitors in the application of motor vehicle technology: its motorcycles not only look old-style, the technology is old-style. This can be seen especially in engine technology. When H-D introduced its new Twin Cam 88 engine in 1998, *Motorcycle* magazine reported:

Honda comes out with an average of two new (or reworked) motors every year. The other Japanese manufacturers are good for about one. Count on Ducati and BMW to do something every few years. That leaves only Moto Guzzi and Harley. So it goes to say that when either of these two old farts gets off the pot, they really raise a stink, so to speak.

The Twin Cam 88 is Harley's first new engine since the Evolution Sportster motor of 1986, and their first new Big Twin motor since the original Evolution, released in 1984. Fifteen years between engines is not really that long a span for Harley. The Evo's predecessor, the Shovelhead lasted 19 years (with a revision after five), and the Panhead lasted nearly as long.

Yet, despite the fanfare, Harley's Twin Cam 88 engine was hardly innovatory. It is a 1450cc traditional V-twin with push rods and is air-cooled, a decade after Japanese manufacturers had introduced multi-valve, liquid-cooled, overhead camshaft engines. BMW's R1200C cruiser model launched in 1997 with a star role in the James Bond movie "Tomorrow Never Dies," featured shaft drive; a multi-valve, fuel-injected engine; triple-disc, anti-lock brakes; and "road-hugging" cornering from its advanced suspension system. While BMW and the Japanese manufacturers apply the latest automotive technology to their new models, H-D has concentrated upon incremental refinements to its engines, frames, and gearboxes aimed at improving power delivery, reliability, increasing braking power, and reducing vibration. This continual upgrading of its technology and its quality has been an essential requirement of H-D shifting its customer base from blue-collar enthusiasts to older professionals who lack the time, inclination and expertise to reassemble and tune their bikes on a weekend and need "luxuries" such as electric starters and vibration control

H-D has sought out alliances as a means of accessing advanced automotive technologies. In 1997, it established a joint venture with Porsche AG to source and assemble motorcycle components and to access Porsche's expertise in engine emission compliance. For its VF1000 Superbike race team, H-D collaborates with Cosworth Racing, Ford, and Gemini Racing Technologies.

Low output volumes present another design challenge: reconciling product differentiation with scale economies. Personalization is an essential requirement for the Harley owner. Hence, H-D must offer a wide model range, and a broad set of options regarding paint, accessories and trim. At the same time, economies in engineering, manufacturing and purchasing require standardizing components across the model range. The result is that H-D has continually broadened its range of models (its 2001 lineup offered 30 separate models) and in for each model offers a range of options. At the same time, it bases this range of product offerings upon two engine types (Evolution and Twin Cam 88), four basic frames, four styles of gas tank, and so on.

The Harley product line also covers a wide price range. The Sportster model is intended as an entry level bike, priced at a mere \$5,595, less than one third of the price of the Ultra Classic Electra Glide at \$18,980 (see Table 8.4).

[Table 8.4 about here]

## **Buell**

H-D's involvement in Buell represented a significant strategic shift for the company. Founded by ex-Harley engineer Erik Buell in the 1980s, Buell Motor Company developed bikes that synthesized the comfort and style of a Harley cruiser with the high-performance attributes of a sports bike. Harley purchased a 49 percent stake in Buell in 1993, and in 1998 acquired complete ownership and control. Buell bikes use Harley engines and other components, but mount them on a lighter, stiffer frame. The lighter weight and superior handling and acceleration of Buell models were seen as appealing to younger motorcyclists and also to the European market, where customers put greater value on sporty performance and a cheaper price tag. In the US, the typical Buell customer was seven years younger than that of Harley buyers and the price tag about \$10,000 compared to an average Harley price of \$16,000. To appeal to this younger segment, H-D used slogans such as "Pull Some Gs" and "Different in Every Sense" to advertise Buell bikes. As with Harley, Buell has attempted to foster close relations with its customers. The Buell Riders Adventure Group (BRAG) was modeled after HOG.

Buell's production rose from 4,462 units in 1997 to 6,876 in 2000, boosted, in part by the introduction of the Buell Blast, an entirely new model with a single cylinder engine of under 500cc and a price tag of \$4,395. H-D's first entry into the middleweight market and its only departure from its V-twin engines in almost three decades was a significant strategic move for H-D. It followed concern over the rising average age of Harley owners (44 years old in 2000, up from 34 years old in 1985) as compared to an average of 38 for motorcycles owners generally (up from 27.6 in 1975). In 1997, H-D set up a working group to explore ways of attracting new, younger motorcycle riders. Market research found that many potential riders were put off by motorcycles being "hard to learn", and big cruisers and touring bikes viewed as "intimidating" or "something an old guy would ride." Following one group meeting, CEO Jeff Bluestein was at home thinking about the type of motorcycle to attract new riders to the sport: "I looked over at a picture of the first motorcycle we ever built in 1903 and thought, why don't we go back to our roots and develop a

single-cylinder that would be light, yet powerful, easy to ride, and still deliver a genuine riding experience," said Bluestein. The result was the Buell Blast.

Harley-Davidson has promoted the "Blast" in several non-traditional ways. First, in an effort to help novices overcome any fear of the unknown, the company offers a Riders Edge schooling program to these users. The Riders Edge is part of a consumer education campaign targeted at these new users. Second, advertisements are being targeted through consumer publications and cable TV. Buell has been a significant backer of ENFL, the entertainment-oriented football league.

Table 8.5 shows H-D's shipments by product type.

[Table 8.5 about here]

## Distribution

Upgrading H-D's distribution network was a key aspect of Harley's development strategy during the 1980s and 1990s. Many of Harley's 620 US dealerships were poorly managed shops, operated by enthusiasts, with erratic opening hours, a poor stock of bikes and spares, and indifferent customer service. If H-D was in the business of selling a lifestyle and an experience, then dealers were the primary point of contact between the company and its customers. Moreover, if H-D's future lay with professionals who possessed the disposal income to lay out \$15,000 on a motorcycle for occasional leisure rides—then the retail environment had to be appropriate to the requirements of this customer group.

Harley's dealer development program increased support for dealers while imposing higher standards of pre- and after-sales service, and requiring better dealer facilities. The dealers were obliged to carry a full line of Harley replacement parts and accessories, and to perform service on Harley bikes. Training programs helped dealers to meet the higher service requirements, and encouraged them to recognize and meet the needs of the professional, middle-class clientele that H-D was now courting. Unlike any other motorcycle company, H-D required exclusivity of its dealers—if they were Harley dealers, they couldn't sell any other brand.

The dealers played a central role in Harley's repositioning, growth, and fostering of customer loyalty. Under pressure and guidance from H-D, over 90 percent of the 600 dealers in the United States rebuilt, renovated, or substantially upgraded their stores. Dealers' showrooms moved locations and went from being gritty motorcycle shops to airy boutiques that featured, not just motorcycles, but a wide range of apparel and accessories as well. H-D partnered with its dealers in local advertising and promotion. For instance, the "Genuine Deal" campaign—which offered dealers TV and radio spots and promotional materials—was designed to build the Harley brand image, dealership loyalty, and the develop sales of accessory business—which, during the first year of Harley ownership, amount to an average of \$3,500 in incremental retail sales.

H-D believed that its dealer strategy was an important explanation for the fact that, despite a fourfold increase in production capacity since the beginning of the 1990s, demand for Harley motorcycles continued to outstrip supply. Every motorcycle that H-D made in year 2000 was already been sold long before it came off the production line. For many models, would-be buyers must join a waiting list. One result is that used bikes frequently sell at higher prices than new bikes. More generally, the rate of price depreciation of used Harleys is very low. Hence, the high price of the original purchase is mitigated by high resale values.

## Other Products

Sales of parts, accessories, and "general merchandise" (clothing and collectibles) represented over 20 percent of total sales in 2000—much higher than for any other motorcycle company (see Table 8.6). Clothing sales include not just traditional riding apparel, but a wide range of men's, women's, and children's apparel.

Only a small proportion of the clothing, collectibles and other products bearing the Harley-Davidson trademark are sold through the H-D dealership network. Most of the "general merchandising" business represented licensing of the H-D name and trademarks to third-party manufacturers. For example, Nice Man Merchandising, supplied Harley-Davidson children's clothes; a giftware company supplied Harley holiday bulb ornaments, music boxes, and a Road King pewter motorcycle replica; L'Oreal offered a line of Harley-Davidson cologne; Harley-Davidson Cafes operated in Manhattan and Las Vegas.

Harley-Davidson Financial Services was established to supply credit, insurance and extended warranties to H-D dealers and customers. It earned \$37.3 in operating income in 2000, plus an after-tax gain of \$6.9 million from the sale of the Harley-Davidson Chrome VISA card business.

[Table 8.6 about here]

## International Expansion

A key part of H-D's growth strategy is expanding its sales outside of the US. "A few years ago," says Harley CEO Bleustein, "our prime focus was the domestic market, and the rest was gravy. That view had to change. If our growth is to continue, Europe will have to play a significant part." A critical issue for international marketing is the extent to which the products and the Harley image need to be adjusted to meet the needs of overseas markets. Harley's image is rooted in American culture, and thus seems central to their appeals to European and Asian customers. "The US and Harley are tied together," says Hugo Wilson of Britain's *Bike* magazine, "the guy who's into Harleys here is also the guy who owns cowboy boots. You get a Harley and you're buying into the US mystique."<sup>30</sup> At the same time, the composition of demand and the customer profile is different in overseas markets.

Europe is the focal point of H-D's overseas ambitions, simply because it is the largest heavyweight motorcycle market in the world. Europe also a huge challenge for H-D. Unlike in the US, H-D has never had a major position in Europe and it must fight to take market share from the established leaders in the heavy bike segment: BMW, Honda, Kawasaki, and Yamaha. The European motorcycle market differs significantly from the American market in that 70 percent of the heavy motorcycle market is for performance bikes (such as the popular Japanese high-power, lightweight, racing-style bikes), while the touring/cruiser bikes such as those Harley makes account for only 30 percent. European buyers tend to be knowledgeable and highly style conscious. Also, European roads and riding style are different from the US. As a result, Harley has modified some of its models to better meet the needs and tastes of its European customers. The US Sportster, for example, has a straight handlebar instead of curled buckhorns and a new suspension system to improve cornering. The name has also changed to the "Custom 53." The Harley Softail has also received a new look, becoming the "Night Train." As in the US, Harley management regards the after-sale value of biker clubs and events as a critical differentiator for its product. The biggest Harley gathering ever planned was for June 20, 1998 in Austria, when some 10,000 European Harley owners gathered in celebration of the company's 95th anniversary.

The European heavyweight market grew strongly during the mid- to late 1990s, especially in Italy, where a new customer base of Italian youth has driven sales. "Sales to those 25 and younger are about 3 percent among the world's motorcycle manufacturers," says Carlo Talamo, owner of 40 Numero Uno Harley Stores scattered around Italy. "In Italy [the youth market] is 37 percent."<sup>31</sup> By 2000, H-D's European Region (Europe/Middle East/Africa) had 349 independent Harley-Davidson dealerships serving 32 country markets. This included 181 combined Harley-Davidson and Buell dealerships. Buell was further represented by 22 dealerships that did not sell Harley-Davidson motorcycles. The European Region, headquartered in Windsor, England, oversees wholly owned sales and marketing subsidiaries in France, Germany, Netherlands and the United Kingdom.

However, despite growing sales, Harley has found it difficult to increase its market share significantly in Europe. The high price of Harleys and the rising value of the US dollar during the late 1990s gave Japanese and European manufacturers a competitive edge. .

In the Asia/Pacific Region, there were 241 Harley-Davidson outlets serving 8 country markets. This includes 48 Harley-Davidson dealerships, 79 combined Harley-Davidson/Buell dealerships, 5 Buell only dealerships, 81 Harley-Shops, and 28 service shops. Two major markets remained Australia and Japan.. The Japan HOG has its own web page and a downtown Tokyo clubhouse available to its members. H-D only sells about 9,000 machines a year in Japan but has been very successful in sales of brand-named merchandise, spare parts and related goods. The potential of the Japanese market has also caught the attention of H-D's competitors: Triumph of the UK announced at the end of 2000 plans to set up a nationwide network of 40 dealerships appealing to those in search of a "more distinctive riding experience."

In Latin America, H-D sells into 16 countries. These sales are managed from Milwaukee, Wisconsin. The H-D's market penetration is limited by its sparse distribution network: just 26 Harley dealerships and 10 authorized retail outlets and mall stores focused on selling general merchandise. The two major markets are Brazil and Mexico. In Brazil, H-D opened an assembly plant in Manaus towards the end of 1999.

## Operations

Since emerging as an independent company in 1981, H-D has been continuously upgrading its manufacturing operations. This has involved continuous investment in plant and equipment, both to introduce advanced process technologies and to expand capacity. Even more important has been the development of manufacturing capabilities through total quality management, just-in-time scheduling, CAD/CAM, and the devolution of responsibility and decision making to the shopfloor.

At the beginning of 2001, H-D's engine and component manufacturing was clustered around its Milwaukee headquarters, with assembly concentrated at York, Pennsylvania. In addition, H-D had two new plants, Sportster production at Kansas and its Brazilian assembly plant. Table 8.7 shows H-D's principal facilities.

[Table 8.7 about here]

Despite the enormous strides in implementing state-of-the-art manufacturing methods and expanding production to offset the problems of small-scale production, H-D low production volumes relative to Honda and the other Japanese manufacturers imposed significant cost disadvantages. A key factor in this volume-related cost disadvantage was in the purchasing components. Bought-in, customized components account for a large proportion of manufacturing costs and H-D does not possess the same buying power as Honda or even some of the smaller manufacturers. Thus, despite its smaller volume of motorcycle production, BMW is able to leverage the buying power of its automobile business.

To meet this challenge, H-D placed purchasing managers at senior levels within its management structure and fostered close relations with its key suppliers. In 1992, Harley extended its program of quality improvement to encompass its suppliers. It established a supplier advisory council (SAC) to expose supplier executives to the best practices of other suppliers in the Harley network.<sup>6</sup> Harley's director of purchasing, Garry Berryman, commented: "Through the SAC, we're able to take some of the entrepreneurial aspects of our smaller, privately held suppliers and inject that enthusiasm, spirit, and energy into those that may be larger, publicly held companies. In this way, the SAC serves not only to improve purchasing efficiency, but also provides a forum to share information, ideas, and strategy." The SAC, says Berryman, is a way "to leverage the successes that occur in one area across the broader organization."<sup>7</sup> The SAC comprised 16 suppliers out of H-D's 400+ OEM suppliers. Each SAC member was encouraged to contact 9-12 other first-tier suppliers on issues of costs, quality, scheduling, and strategy, the goal being to spread best practices within Harley's supplier base and to improve the quality of Harley's own practices. Berryman observed: "The knowledge, leadership, and intelligence represented in our supplier council brings our capabilities well beyond what we could do with internal resources."

Suppliers were also included in Harley's new product development process. Leroy Zimdars, Harley's director of purchasing development, noted: "We want suppliers to be deeply involved, at an early stage, in new product development. We'll use the SAC as a sounding board for how the supply base accepts the new structure, and we can react to it."

## People and Management Processes

A key feature of H-D's turnaround during the 1980s was the quest for a new relationship between management and employees. Following the management buyout, H-D's new management team systematically rethought management-employee relationships, employee responsibilities, and organizational structure. The result was a transformation in employee commitment and job satisfaction. "What other company has employees who tattoo the company name on their bodies? Or offers not just a job but a lifestyle?" observed an assembly-line worker at Harley's Milwaukee plant. Harley has a no lay-off policy, 12 weeks of paid maternity leave, and unlimited sick days for staffers.

The process of management innovation is a continuing one. When Harley's new Northland Plant went on line in Kansas City in January 1998. The plant's management structure and working methods reflected the company's desire to make further advances in employee commitment and self-management. "I'm not aware of anybody anywhere doing anything that emulates this," says plant chief Karl Eberle.<sup>8</sup> In contrast to the traditional layout of Harley's other plants, the Northland Plant does not have a management space that oversees floor production from a glassed-in office upstairs. Instead, the plant manager and other administrators work in a "bullpen area" on the floor and in the center of the 330,000 square-foot building.

In an effort to engage and motivate the entire plant work force, management developed a novel operating structure different from anything else within the company. The structure comprised three types of teams:

- ?? *natural work groups* - every worker belongs to a work group, with 8-15 people per group
- ?? *process operating groups* - comprised of representatives from each work group, there are four process operating groups; each oversees the plant's four operating divisions: paint, assembly, fabrication, and engine production
- ?? *plant leadership group* - a 14 member committee, responsible for governing the facility; comprised of the plant manager, the presidents of both unions representing the plant work force, four elected representatives from the process groups, an elected representative from maintenance, and six administrators

Harley's belief is that a less hierarchical, more team-based structure can improve employee motivation and accelerate the learning process at its plants.

## **Headquarters Organization**

The movement toward a flatter, more team-based organizational structure was extended to H-D's corporate structure. "In our new organization," explained Clyde Fessler, VP for business development, "the Harley-Davidson Motor Company has been divided into three broad, functional areas called Circles. They are: the Create Demand Circle (CDC), the Produce Product Circle (PPC), and the Provide Support Circle (PSC). Each Circle is composed of the leaders representing the functions within it. The flexibility of the organization extends even to the decision of which functional areas are identified within a given circle. It is quite possible that Circle definitions may shift from time to time, depending on the demands of the business."<sup>9</sup> Like the team structure developed for the Kansas City plant, each Circle operated as a team with leadership moving from person to person, depending on the issue being addressed. Individual Circles met once a month with all three Circles meeting together quarterly.

Overall coordination was provided by the Strategic Leadership Council (SLC) comprising individuals nominated by each of the three Circles. Explained Fessler:

*The role of the SLC is to resolve issues that have not been settled previously by consensus in Circle meetings. Leadership of the Council also rotates, shifting to Circle representative who 'owns' the topic being discussed...The Circle format is especially valuable in that it facilitates systems thinking in our strategy implementation. If the marketing function plans to focus on a specific product, the Circles provide an opportunity to get feedback from manufacturing about timing and availability. If the Manufacturing function needs to shut down its operations to upgrade equipment, the Circle structure allows all the affected functions to be involved in the decision. We have now been working with this organizational design for three and a half years. And we would probably all agree that the shift from hierarchy to Circles has not been easy - practicing consensus decision-making never is. However, defining the roles and responsibilities of each functional Circle and each Circle member has brought clarity, which in turn stimulates dialogue, trust, and eventually, non-threatening confrontation...Collaborative interdependent teams may not be able to move as quickly as the single decisive leader in a hierarchy, but they can be more innovative and resourceful and, ultimately, more effective in today's complex business climate.<sup>10</sup>*

## **COMPETITION**

Despite H-D's own insistence that it was supplying a unique Harley experience rather than competing with other motorcycle manufactures, the more H-D took market share from other manufacturers, the more it was engaged in a brutally competitive market. By broadening its market, H-D came into closer competition with its Japanese and European rivals—Bell's mission was to compete directly with them. And the more successful was the Harley brand, the more it could expect its bigger competitors to target its own market niche. Honda, Suzuki, Yamaha, and Kawasaki had long been offering V-twin cruisers styled closely along the lines of the classic Harleys—but at lower prices, with more advanced technologies, and in some dimensions, superior performance. In competing against H-D, the Japanese manufacturers' key advantage was their sales volume. H-D's single-segment focus and concentration on the US market meant that it produced a much smaller volume of bikes than any of the Japanese producers. The most striking comparison was between H-D and Honda: H-D's total of 204,592 bikes in 2000 was dwarfed by Honda's 5.16 million bikes in the same year. These volume differences have important implications for H-D's ability to access economies of scale. In addition, H-D's greater product and geographic focus meant that it was also more vulnerable to a downturn in demand in its specific segment or in the US economy.

In addition, H-D was also diversified. Honda, BMW, and Suzuki are important producers of automobiles and more than one third of Yamaha's turnover comes from boats and snowmobiles. These companies could benefit from sharing technology, engineering capabilities, and marketing and distribution know-how between their automobile and motorcycle divisions. In addition, sheer size conferred greater bargaining power with suppliers.

In addition, H-D was also facing competition from other specialists producing retro-styled cruiser bikes. In recent years Excelsior, Polaris, and Big Dog had all entered Harley's during the late 1990s, but with only limited success to date.

Appendix 2 gives profiles of several competitors of H-D in the heavyweight motorcycle market.

## **MEETING THE CHALLENGES OF TOMORROW**

As Jeff Bluestein thought ahead to H-D's centenary celebrations in 2003, his mind focused upon the possible potholes that the company might encounter on the road forward. H-D had shown that it could build its owner base and extend it overseas without undermining the fervent loyalty of its customers. But how far could H-D go in expanding its production capacity? H-D's ability to run its plants at full capacity was central to its strong profitability and its ability to fund its continued development. The most obvious threat to demand was the risk of a significant recession in the US. Of greater concern to Bluestein was the potential for Harley's big cruiser motorcycles to lose their appeal to its core customer group—middle and upper income American males in their late 30s to early 50s willing to pay \$15,000 for a motorcycle. While H-D's marketing emphasized the experience of motorcycle. Bluestein was also acutely aware that purchasing a Harley was, for many of its owners, was more a statement of style than a desire to ride the great American wilderness. Ultimately all lifestyle products are vulnerable to shifts in fashion and lifestyle. Even with its Buell division, H-D might be vulnerable to a shift of style away from the heavyweight cruisers towards the sports machines offered by Ducati, Triumph, Aprilia, and of course the Japanese producers.

As H-D grew and expanded its model range, so it needed to be more concerned over the overall health of the US motorcycle market. Although the heavyweight segments had seen strong growth, the market as a whole had been in steady decline—in 1973, 1.2 million new motorcycles were registered, compared to the 416,000 registered in 1998.

If the market for big bikes declined, this would greatly increase the intensity of competition between manufacturers. In such an environment H-D would need to work even harder to create value for its customers through enhancing the differentiation of its products and managing and communicating the Harley Experience. This must involve both the provision of explicit services—training, insurance, repair, service and customization for its owners—but also activities that built the Harley family through HOG and the variety of company-sponsored rides and events.

The quest to recruit new riders represented a particular challenge for H-D. Bluestein believed that H-D's attributes of independence and ruggedness were particularly appealing to a younger user—a segment it considered as adrenalin-seeking, outdoors-loving, and physically active. Within this younger segment, two groups showed potential. First, friends and families of current motorcyclists. Second, new users who had no connection to the motorcycling industry. According to H-D president John Atwood at the introduction of the Buell Blast, “the first group sells itself and needs no preaching to the choir. The second group, the inexperienced novice and non-riders needed to be oriented, educated and informed.”

In terms of product policy, appealing to this new segment meant emphasizing the traditional Harley style, but improving the products to meet the needs of buyers who had neither the time nor the skill nor the inclination to maintain, rebuild, and upgrade their own bikes. It also meant introducing new models. Here, a critical issue was whether H-D reputation and image could extend to radically new products such as the Buell Blast without damaging that reputation and, even if successful, whether the new riders would remain loyal Harley customers.

Overseas markets provided some of the most significant challenges. Establishing distribution and dealership networks and supporting these with advertising and promotion involved substantial investment. At the same time, H-D's image and competitive position would inevitably differ between countries. How far should H-D seek to adapt its products and their marketing and distribution to the idiosyncrasies of different overseas markets, and did the market potential of these countries for Harleys justify these efforts? The quest for sales growth overseas posed a similar risk as expanding H-D's market base at home: how far could H-D go in expanding its appeal to younger consumers and overseas customers without undermining or losing sight of Harley-Davidson's core identity?

## **APPENDIX 1**

### **HARLEY-DAVIDSON, SUMMARY OF FINANCIAL STATEMENTS, 1994–1998**

[Table 8.A1 about here]

## **APPENDIX 2**

### **HARLEY-DAVIDSON'S COMPETITORS**

#### **Excelsior Henderson Motorcycle Manufacturing Company (Excelsior)**

In the early 1990s two brothers, Dave and Dan Hanlon, bought the trademarks to a pre-war motorcycle manufacturer, Excelsior and Henderson. Formed in 1876, Excelsior Supply Co. was one of the top three US motorcycle manufacturers at the turn of the century along with Indian Motorcycle and Harley-Davidson. Its motorcycle was the first to break the 100mph barrier. The company was liquidated during the Depression in 1931 and ever since the Hanlon

brothers are trying to resuscitate its image by manufacturing, marketing, and selling cruisers and touring bikes under the Excelsior brand name evoking “an authentic American motorcycling heritage and lifestyle”.<sup>35</sup>

The Hanlons have developed a prototype of a retro-style cruiser with the latest technology and accessories, such as electronic fuel injection, a four-valve cylinder, and an overhead cam engine, named The Super X, to be sold at a sticker price between \$17,000 and \$20,000.

With no revenue generation and with reported losses of \$5.9 MM and a \$2.5 MM in 1997 and 1996 respectively, the firm went public in 1997, raising \$28 MM in proceeds. This IPO funds together with a \$1.7 MM State of Minnesota equipment financing bond, financed the construction of the company’s new administrative and manufacturing facility in Belle Plain, Minnesota. Production started in 1998 (with 5,500 units of backorders) to be stopped in late 1999 when the firm filed Chapter 11-bankruptcy protection.

E.H. Partners, Inc acquired the firm of Chapter 11 in September, 2000 (firm’s public stockholders and founders did not retain an equity interest) and announced a reorganization plan that consisted in its restructuring, no manufacturing during 2001 and resuming motorcycle production for the 2002 year with the complete relaunch of the firm. Moreover, its dealership networks lack from the firm’s support have lost huge amounts in warranty repairs not reimbursed and current availability of parts are almost terminated.

### **Polaris**

A leading snowmobile (world’s largest manufacturer), ATV (all-terrain vehicle), and personal watercraft maker since the 1950s, and currently one of the largest U.S. manufacturers, the firm has past success with taking on Japanese competitors. In the early 1990s, Polaris entered the personal watercraft and the ATV markets, both dominated by Japanese competitors – Kawasaki and Honda respectively. Since then, Polaris has gained the number two market share in ATV sales (37 percent of revenue), and challenged Kawasaki’s dominance of the personal watercraft market by gaining significant market share and brand recognition.

Polaris launched a new cruiser, the Polaris Victory, in the spring of 1998 with a retro look and new technology, and targeting the high-margin, high-growth cruiser market dominated by Harley. High-tech engineering has “eliminated some of the noise and vibration associated with a Harley.”<sup>37</sup> The Victory was positioned to compete with technologically advanced Honda, Suzuki, Kawasaki, and Yamaha cruisers on a price level above Japanese models. Polaris “competes with Japanese on price, quality, and technology.” The company stresses its “made in the USA” appeal to attract customers away from these foreign competitors and is counting on its previous experience making personal watercraft and ATVs to beat the competition. According to CEO Wendel, “We met these guys in snowmobiles and ATVs and we beat their asses off.”<sup>38</sup>

Polaris is a very efficient and aggressive company with high-tech manufacturing capabilities and a wide distribution network of 2,000 dealers (Victory Motorcycles are available at 300 dealers in the U.S., Canada and the U.K.). It reported a twelfth consecutive year of record net income. Net income for 2000 totaled \$82.8 MM (8 percent increase) and sales totaled a record \$1,425.7 MM (7 percent increase).

The firm entered the motorcycle industry leveraging its resources and capabilities: large distribution network, cross selling opportunities, engineering and manufacturing capabilities and low production costs. Engineering of the new cruiser was performed in-house, lowering development costs. Production and assembly takes place at two plants that had extra capacity, and the firm reaches break-even at 4,000 motorcycles per year (3 percent of the current cruiser market). Victory motorcycles sales more than tripled in 1999 and grew by 50 percent in year 2000.

Polaris anticipates becoming a significant player in the motorcycle market developing a line of touring, cruiser, and performance bikes with projected sales of \$500 MM by 2003 and expanded capacity of 40,000–50,000 per year.<sup>40</sup> Polaris is known as an efficient, low-cost manufacturer.

### **Triumph**

Triumph,<sup>55</sup> a British manufacturer, began motorcycle production in 1902. By 1909 the company was producing 3,000 bikes per year and by the 1950s became one of the world’s most renowned motorcycle brands (in part thanks to its appearance as Marlon Brando’s bike in the classic movie “The Wild One”).

However, by the 1970s the company faced financial problems and was forced to liquidate in 1983. Primarily due to the efforts of its current head John Bloor, the company revived in the early 1990s and began development and production of new models. In 1996 the company surpassed the 50,000 bikes production level (touring, cruisers) and unveiled plans to introduce a new performance motorcycle.

“Triumph is the greatest name, and only survivor, of the once internationally dominant British motorcycle industry.” Triumph is about glamour and rebellion, about speed and performance. The company’s most popular model (25 percent of production capacity) is a cruiser, Thunderbird. Thunderbird’s styling is similar to that of the 1960s

Triumph model with the same name and the bike is positioned to capture a part of the lucrative heavyweight cruiser market.

## **BMW**

Even though motorcycles made only about 2.6 percent of total BMW sales income in 2000<sup>42</sup>, the company is committed to supporting and developing its line of bikes. With annual 2000 sales of 74,614 bikes company exported 69 percent of its motorcycles abroad, comparing to the 66 percent in 1999.

BMW Motorcycles celebrated its 75th anniversary in 1998 and its bikes have led the way to technical innovation, pioneering such things as advanced suspension systems, anti-lock brakes, and fuel injection.<sup>43</sup> Because of these technological innovations, BMW motorcycles have lower operating costs than the competition. In a comparison of Kawasaki and BMW touring bikes, the California Police Department estimated an operating cost of 1.9 cents per mile for the Kawasaki model tested, compared to an operating cost of 1.7 cents per mile for the BMW model tested.<sup>44</sup> The company has always been associated with a high technical and quality standard, and its motorcycles are also known for reliability, safety, and comfort.

BMW offers a full line of performance, touring and cruiser bikes. Recently it has introduced its new concept model C1, which is designed to unite the mobility of the bike with safety of the car. First cruiser BMW R1200C was introduced in 1997 as part of the latest James Bond movie, "Tomorrow Never Dies," and became BMW's best-selling bike in its first model year.<sup>46</sup> R1200C includes the latest technological innovations and safety features; however, it departs from the retro look favored by other producers. In creating the bike, BMW assumed that in the future "high performance cruisers will replace retro-look customs with a sportier look and feel."<sup>47</sup> The R1200C was the first in this category. At a price of \$14,500, the cruiser is priced about \$1000 below the range of comparable Harley models providing the superior features as anti-lock disk brakes, superior acceleration technology and liquid-cooled engine<sup>48</sup>. Half of R1200C buyers are those who already own a Harley, and the other half are those who own a Japanese motorcycle.

BMW introduced new luxury touring model K1200LT in 1999. This model also represents the "new" design concept of the modern look. Comparing to the competing models it offers superior comfort and user friendliness.

BMW motorcycles are positioned as a source of "undeniable pleasure and excitement of riding". The underlying idea is that BMW should provide the functionality of the bike with improved comfort and reliability features. In order to achieve this goal company leverages its innovative car building technologies of 70,000 sq. feet R&D campus in Munich. As a result, BMW motorbikes have anti-block braking system (ABS), close-to-car comfort seats as well as enhanced cooling and battery systems to increase reliability of the engine during various riding conditions.

Most of the BMW motorcycles are manufactured in the single plant located in the vicinity of Berlin. During the last year plant was expanded to 2,400 workers (additional 320) to the capacity of 400 items per day. New C1 model is currently built in Carrozzeria Bertone factory.

## **Honda**

Honda Motor Co. has been manufacturing motorcycles since 1947 as a second tier player in an expansion cycle of the Japanese motorcycle industry given the need for cheap transportation means after the World War II. The company entered the US market in 1959, first with cheaper, lightweight bikes, before quickly moving into the higher-priced segments such as performance and touring bikes. The company leveraged the experience obtained in its domestic market towards advertising and distribution in its entrance in the US. Given its initial dependency over an exclusive dealership network in Japan, it decided to go directly to retailers. Moreover, it invested on heavy advertising directly to consumer, which gave Honda excellent results in its domestic market.<sup>1</sup> It achieved an extraordinary growth in the US market, increasing sales from \$500M in 1960 to \$77MM in 1965 and shared with Yamaha and Suzuki 85 percent of the US market by 1966<sup>2</sup>. Honda has been the world's largest motorcycle manufacturer since 1959, with 5,190,000 bikes produced in 2000 (vs. 54,000 made by BMW and 204,592 made by Harley).<sup>50</sup> The company holds 26.5 percent of the total US motorcycle market, and enjoys the number one market share position. The firm motorcycle sales have grown by 20 percent in 1999, reached American Honda sold in the US 296,479 units in 1999 (20 percent increase) compared to 158,817 sold by Harley and 174,376 motorcycles in year 2000 (a record 34.5 percent increase), in an industry which sales grew 27.3 percent.

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<sup>1</sup> Honda (B) Harvard Business School.

<sup>2</sup> Honda (A) Harvard Business School.

Honda Motor's worldwide sales reached 5.16 million motorcycles in year 2000 and the company has the objective of achieving the 7 million mark by March 2004.<sup>1</sup> Worldwide sales have increased by approximately 20 percent and the decline in unit sales in Japan and Europe has been more than offset by the volume growth in Asian countries (specially India, Indonesia and Thailand), as well as in North America.<sup>2</sup> Honda is the Japanese car and motorcycle manufacturer most dependent of the US market. Above 50 percent of its consolidated revenues in year 1999 derived from its US operations.

Honda is a superior engineering company and its motorcycles have traditionally been “on the leading edge of technology.”<sup>51</sup> “Honda is, above all, an engine company,”<sup>3</sup> and, the world's leader in four-stroke technology. The firm was capable of transferring this capabilities into a broad product offering (motorcycle, automobiles and power products). Its performance bikes have dominated motorcycle racing for decades and are associated with the world's greatest racers. The innovations achieved from racing were adapted to its motorcycle products. In the early 1970s the company also had great success with street and touring bikes with the introduction of the style-setting CB750K0 in 1969 and the Goldwing, the world's first long-distance touring bike, in 1975.<sup>52</sup> Honda's capabilities of product innovation together with heavy investment in R&D, economies of scale and efficient distribution enable it to develop technically superior at a lower price. The firm has also committed the largest advertising budget in the industry and established from early on, the largest dealership network in the US.<sup>4</sup> Its scale advantage together with high growth rates resulted in superior productivity that was translated into lower prices. Honda has experienced steep learning curves of 75 percent-87 percent that enable the company to achieve real price reductions of around 50 percent or more over time.<sup>5</sup>

### **Smaller competitors**

Ducati,<sup>54</sup> a “highly regarded but underfunded [Italian] company” attracts customers by leveraging its legendary reputation for high-performance stylish motorcycles. Traditionally, the company has concentrated on the performance segment of the market and sells about 4,000 of these motorcycles in the US each year. However, in 1998 Ducati is expanding into the touring bike market in an effort to double its sales.

Big Dog Motorcycles,<sup>56</sup> produces high-end, customized cruisers for prices that often exceed those of comparable Harleys (between \$18,000 and \$26,000). The company produces 300 bikes per year and primarily sells to customers who do not want to “buy a Harley and put thousands of dollars in it to get it up to real world standards.”

### **Other Japanese competitors**

Several Japanese companies followed Honda's example and entered the US motorcycle market in the 1970s. Yamaha, Suzuki, and Kawasaki began with sales of small, lightweight motorcycles and moved into the “heavyweight” segments of cruisers and touring bikes. Most compete on technological innovation and low price driven by the economies of scale of these large companies. However, while these companies had great success in gaining share in the overall motorcycle market (see Table 8.3), they have captured only 25 percent of the cruiser market, where the Japanese product competes less effectively against the “Made in the USA” Harley mystique.

## **Demographics**

The catalyst for the changing demographics over the past several years has been the baby boomers. Demand in the 1990s far outstripped supply, making the average wait time for a H-D motorcycle between 16 and 24 months. What the firm has benefited from in the past several years has created concern for the future. In the year 2000, the average motorcycle consumer was 38, up from 32 in 1983. The average age for the purchaser of a Harley-Davidson, however, was 47. Harley knew that in order to remain viable, the company would need to begin attracting younger consumers.

In order to achieve this goal, Harley gained controlling interest in Buell Motorcycles. Buell bikes are lighter and easier to ride than the H-D and would therefore not cannibalize H-D sales, but instead provide a new market offering in attracting younger riders and female riders, who often find the large Harley-Davidson difficult to maneuver.

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<sup>1</sup> American Honda Reports Record Motorcycle Sales For 2000, February 2, 2001 ([www.americanmotor.com](http://www.americanmotor.com))

<sup>2</sup> Honda's Q2 2000 Motorcycle Sales Up -Overall Net Income Down November 16, 2000 ([www.americanmotor.com](http://www.americanmotor.com))

<sup>3</sup> American Honda Reports Record Motorcycle Sales For 2000, February 2, 2001 ([www.americanmotor.com](http://www.americanmotor.com))

<sup>4</sup> Honda (A) Harvard Business School.

<sup>5</sup> Ibid.

The Buell also retails at a lower price point, which makes the motorcycle more appealing to younger, less-affluent individuals.

**TABLE 8.1****Annual production of motorcycles by Harley-Davidson since 1901**

1901	1903	1913	1920	1933	1936	1948	1953	1966	1975
3	150	12,904	28,189	3,700	9,812	31,163	14,050	36,310	75,403
1981	1986	1987	1988	1989	1990	1991	1992	1993	1994
41,586	36,700	43,300	50,500	58,900	62,500	68,600	76,500	81,700	95,811
1995	1996	1997	1998	1999	2000				
105,104	118,771	132,285	150,818	177,187	204,592				

Source: www.harley-davidson.com

**TABLE 8.2****Harley-Davidson's motorcycle registrations (1993–2000)\***

1993	1994	1995	1996	1997	1998	1999	2000		
<i>United States/Canada</i>	132,800	150,400	163,100	178,500	205,400	246,200	297,800	363,400	
Harley-Davidson	63,400	69,700	77,800	86,800	101,200	119,400	146,000	168,300	
Market share (650 <sup>2c</sup> )	47.7%	46.4%	47.7%	48.6%	49.3%	48.5%	49.0%	46.3%	
<i>Europe</i>	218,600	201,900	207,200	224,700	250,300	270,200	306,700	293,400	
Harley-Davidson	13,200	14,400	15,400	15,300	16,100	17,300	19,900	21,800	
Market share (650 <sup>2c</sup> )	6.1%	7.1%	7.4%	6.8%	6.4%	6.4%	6.5%	7.4%	
<i>Japan/Australia</i>	35,700	39,100	39,400	37,417	58,880	69,200	63,100	62,700	
Harley-Davidson	6,700	7,600	7,900	8,400	10,100	10,800	12,300	12,900	
Market share (650 <sup>2c</sup> )	18.7%	19.4%	20.1%	22.4%	17.2%	15.6%	19.6%	20.5%	

\*Includes Buell

Source: www.harley-davidson.com

**TABLE 8.3****Market shares in heavyweight motorcycles, 1999 and 2000 (%)**

	<i>North America</i>		<i>Europe</i>		<i>Japan/Australia</i>	
	1999	2000	1999	2000	1999	2000
Harley-Davidson	49.0	46.3	6.5	7.4	16.5	20.5
Honda	17.0	19.1	22.2	21.8	30.1	21.8
Kawasaki	10.4	9.1	11.6	9.4	20.2	18.9
Suzuki	9.4	9.5	15.4	14.3	8.7	10.4
Yamaha	7.6	9.0	18.0	17.3	13.9	17.0
BMW	3.5	3.2	13.0	13.0	4.0	4.0
Ducati	-	1.9	5.4	6.3	3.2	4.6
Triumph	-	-	4.2	4.2	-	-
Aprilla	-	-	-	2.1	-	-
Other	3.1	1.9	3.7		3.1	4.2

Source: Harley-Davidson Annual Report, 1999, 2000.

**TABLE 8.4****Heavyweight motorcycles: price comparisons, 2000**

<i>Manufacturer and model</i>	<i>Engine</i>	<i>Price (\$)</i>
H-D XLH 800 Sportster	V-twin, air-cooled, 883cc	5,595
H-D XL 1200S Sportster	V-twin, air-cooled, 1203cc	8,595
H-D Dyna Wide Glide	V-twin, air-cooled, 1340cc	15,595
H-D FLSTS	V-twin, air-cooled, 1340cc	15,690
H-D Heritage Softail Classic	V-twin, air/c, 1340cc carburetor or injection	16,235
H-D Fat Boy	V-twin 1,450cc, carburetor or injection	15,495
H-D Road King Classic	V-twin carburetor or injection	16,695
H-D Heritage Springer	V-twin 1,450cc, carburetor or injection	17,545
H-D Ultra Classic Electra Glide	V-twin 1,450cc, injection	18,980
Honda Shadow ACE 750	V-twin, OHC, 745cc	6,299
Honda Pacific Coast	V-twin, liquid-cooled, 800cc	8,699
Honda Shadow Aero	V-twin, liquid-cooled, 1099cc	9,695
Honda Shadow ACE Tourer	V-twin, liquid-cooled, 1099cc	10,999
Suzuki Marauder	V-twin, liquid-cooled, OHC, 805cc	5,999
Suzuki Intruder	V-twin, air-cooled, 1462cc	9,899
Kawasaki Vulcan 800	V-twin, 8-valve, OHC	7,999
Kawasaki Vulcan Classic	V-twin, air-cooled, 1470cc	11,590
Yamaha 750 Virago	V-twin, OHC, 749cc	6,499
BMW F650	Liquid-cooled, double OHC, injection	8,100
BMW R1200C Cruiser	1170cc, ABS, injection, liquid-cooled	14,500
BMW K1200LT Tourer	1171cc, ABS, injection, liquid-cooled	16,700
Polaris Victory V92C	V-twin, 4-valve OHC, 1507cc	13,595

Source: www.h-d.com; www.motorcycle.com

**TABLE 8.5****Harley-Davidson shipments 1997–2000 (units)**

	<i>1997</i>	<i>1998</i>	<i>1999</i>	<i>2000</i>
<i>Motorcycle shipments</i>				
United States	96,216	110,902	135,614	158,817
Export	36,069	39,916	41,573	45,775
<i>Motorcycle product mix</i>				
Sportster	23.8%	22.5%	23.6%	22.6%
Custom	53.5%	51.3%	49.6%	49.3%
Touring	22.8%	26.2%	26.8%	28.1%
<i>Buell motorcycle shipments</i>				
United States	1,912	3,333	4,022	4,306
Export	1,197	2,132	2,780	2,570

Source: Harley-Davidson quarterly results (www.harley-davidson.com).

**TABLE 8.6****Harley-Davidson's sales of parts, accessories, and general merchandise, 1986–1999 (\$ million)**

<i>1990</i>	<i>1991</i>	<i>1992</i>	<i>1993</i>	<i>1994</i>	<i>1995</i>	<i>1996</i>	<i>1997</i>	<i>1998</i>	<i>1999</i>	<i>2000</i>	
Parts and Accessories	80.2	94.3	103.6	127.8	162.0	192.1	210.2	241.9	297.1	362.6	447.9
General merchandise	29.8	36.0	52.1	71.2	94.3	100.2	90.7	95.1	114.5	132.7	151.4

*Source:* Harley-Davidson financial statements ([www.harley-davidson.com](http://www.harley-davidson.com)).

**TABLE 8.7****Harley-Davidson facilities, 1999**

<i>Location</i>	<i>Function</i>	<i>Total employment</i>
<i>Wisconsin</i>		2,400
Milwaukee	Corporate Headquarters, parts/accessories sales, R&D	
Wauwatosa	XL Engine/Transmission production, Product Development Center	
Menomonee Falls	FL Engine/Transmission production	
Franklin	Parts/Accessories Distribution Center	
Tomahawk	Fiberglass parts production/painting	
<i>Pennsylvania</i>		2,600
York	Final assembly plant, parts and painting	
<i>Missouri</i>		350 by 1998
Kansas City	Manufacturing, painting	
<i>Brazil</i>		
Manaus	Manufacturing	N.A.

*Source:* Harley-Davidson *Annual Report*, 1999.

**TABLE 8.A1****Harley-Davidson: Selected items from financial statements, 1994–2000 (\$ million, except per-share data)**

	1994	1995	1996	1997	1998	1999	2000
Net sales	1,159	1,350	1,531	1,762	2,064	2,453	2,906
Gross profit	358	411	490	586	691	836	991
R&D	28.1	30.3	37.3	53.3	58.7	70.3	75.8
Selling, admin., engineering	(204)	(234)	(269)	(329)	(377)	(448)	(513.0)
Operating income	153.6	180.8	228.4	270.0	333.6	415.8	515.0
<i>Of which:</i>							
Financial services	—	3.6	7.8	12.4	20.0	28.0	37.2
Interest income	1.7	0.1	3.3	7.9	3.8	8.0	17.6
Other income/(expense)	1.2	(4.9)	(4.1)	(1.6)	(1.2)	(3.1)	16.0
Income before taxes	156.4	176.0	227.6	276.3	336.2	420.8	548.6
Provision for income taxes	60.2	64.9	84.2	102.2	122.7	153.6	n.a.
Net Income	104.3	112.5	166.0	174.1	213.5	267.2	347.7
Earnings per share (diluted)	\$0.62	\$0.73	\$0.94	\$1.13	\$1.38	\$1.73	\$1.13
<i>Balance sheets</i>	<i>1994</i>	<i>1995</i>	<i>1996</i>	<i>1997</i>	<i>1998</i>	<i>1999</i>	<i>2000</i>
<i>Assets</i>							
<i>Current assets</i>							
Cash and cash equivalents	59.3	31.5	142.5	147.5	165.1	183.4	419.7
Finance receivables, net	—	169.6	183.8	249.3	319.4	354.9	580.9
Accounts receivable, net	143.4	134.2	141.3	102.8	113.4	101.7	98.3
Inventories	173.4	84.4	101.4	117.5	155.6	168.6	191.9
Other	20.1	20.3	44.0	43.0	50.4	54.3	56.4
Total current assets	405.6	337.2	613.1	704.0	845.0	949.0	1,297.3
Property, plant, equipment	262.8	284.8	409.4	528.9	627.8	681.7	---
Total assets	739.2	1,000.7	1,230.0	1,598.9	1,920.2	2,112.1	2,436.4
<i>Liabilities &amp; stockholder's equity</i>							
<i>Current liabilities</i>							
Current portion of finance debt	18.2	2.7	8.6	90.6	146.7	181.2	89.5
Accounts payable	64.0	102.6	100.7	106.1	122.7	137.7	---
Total current liabilities	216.3	233.2	251.1	361.7	468.5	518.2	497.7
<i>Non-current liabilities</i>							
Finance debt	0	164.3	258.1	280.0	280.0	280.0	355.0
Other long-term liabilities	89.7	108.6	70.3	62.1	67.4	65.1	97.3
Post-retirement benefits	n.a.	n.a.	65.8	68.4	72.1	75.7	80.7
Total stockholders' equity	433.2	494.6	662.7	826.7	1,029.9	1,161.1	1,405.7
Total liabilities & stockholders' equity	739.2	1,000.7	1,230.0	1,598.9	1,920.2	2,112.1	2,436.4
<i>Cash flows</i>	<i>1994</i>	<i>1995</i>	<i>1996</i>	<i>1997</i>	<i>1998</i>	<i>1999</i>	<i>2000</i>
Operating activities	80.8	169.1	228.3	309.7	318.1	416.1	565.5
Capital expenditures	(94.7)	(113.0)	(178.8)	(186.2)	182.8	165.8	(203.6)
Total investing activities	(96.6)	(187.8)	(213.8)	(406.5)	(340.2)	(299.6)	(171.0)
Financing activities	(2.6)	(10.5)	96.5	101.8	39.8	(98.3)	(158.1)

Net increase in cash	(1 8.4)	(26.4)	(111.0)	5.0	(17.6)	18.2	236.3
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Source: Harley-Davidson financial statements ([www.harley-davidson.com](http://www.harley-davidson.com)).

\*Balance sheet information does not include current portion of finance receivables, net in current assets (1998=360.3 / 1999=441.0)





Gross profit 2,637	586.20	691.0	836.0	262.5	278.3	328.3	0.00	0.10	14,047	14,055.8	16,685	7,234	2,376	
SG&A 3,015	262.91	291.1	337.9	142.7	149.8	183.4	3.9	23.3	8,119	10,556.1	12,133	7,725	2,846	
R&D n.a.	53.30	65.9	82.1	26.7	28.4	31.3	2.60	---	2,211	n.a.	n.a.	n.a.	n.a.	
Operating income 489	323.29	399.5	497.9	93.1	100.1	113.6	(6.50)	(23.3)	3,717	3,499.7	4,531.6	506	508	
Non-operating expenses:														
Interest expense (income) 282	(7.87)	(3.8)	(8.0)	2.8	3.0	4.3	0.00	0.00	194	n.a.	n.a.	---	106	
Taxes 12	102.20	122.7	153.6	36.8	17.3	42.0	0.00	0.00	1,760	1,523.7	1,904.8	351	290	
Other expenses (income) 489	1.57	1.2	3.1	(11.80)	(12.6)	(8.8)	(0.63)	0.70	(212)	3.2	116.4	(105)	5	-
Net income 270	174.1	213.5	267.2	65.3	31.0	76.3	(5.87)	(23.9)	1,975	1,972.9	2,530.4	260	329	
Net income per share n.a.	\$1.15	\$1.38	\$1.73	\$2.45	\$1.19	\$3.07	\$(0.65)	(1.83)	n.a.	4.05	5.20	n.a.	n.a.	

Sources: [www.harley-davidson.com](http://www.harley-davidson.com); [www.polarisindustries.com](http://www.polarisindustries.com); <http://sec.gov>; [www.honda.com](http://www.honda.com); [www.bmw.com](http://www.bmw.com)

\* Excelsior does not have information for 1999 as a result of bankruptcy Chapter 11.

Accounts for Honda and BMW are company-wide accounts and includes car building and some other operations.

Exchange rates used: Yen/Dollar 1996: 124.08yen/\$ Yen/Dollar 1997: 130.10yen/\$ DM/Dollar 1996 and 1997: 1.77DM/\$ Euro/Dollar 1998: End-Y 0.885 Euro/\$; Average 0.899 Euro/\$; Euro/Dollar 1999: End-Y 0.996 Euro/\$; Average 0.938 Euro/\$

## NOTES

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