

case nine

Harley-Davidson, Inc., January 2007

TEACHING NOTE

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■ SYNOPSIS ■

Since the leveraged buyout by management in 1981 and its initial struggle for survival, Harley-Davidson has taken market share from the once-dominant Japanese motorcycle companies and emerged as the world's most profitable motorcycle manufacturer and market leader in the heavyweight segment.

The Harley-Davidson story is one of a well-focused, tightly integrated strategy where Harley carefully exploited its key resources of image and tradition while building up its underdeveloped capabilities in design, manufacture, marketing, and distribution. Key to the success of its strategy was the establishment of a unique differentiation through which Harley avoided direct competition with bigger, technologically superior rivals such as Honda, Yamaha, and BMW.

Harley's situation in 2007 looks very favorable – despite capacity expansion, there is still a waiting list for some Harley models and Harley is beginning to do better in overseas markets. Yet, threats to Harley's success remain. In its core market, Harley faces competition from several companies that offer similarly styled V-twin, retro-look bikes at prices far below Harley's. And will this market continue to grow? As with any high-priced luxury, lifestyle product, the continued appeal of Harley motorcycles cannot be taken for granted. Even if Harley and big motorcycles in general maintain their appeal, where will Harley's future growth come from? In its core US market, it is the dominant supplier of super-heavyweight (850cc+) motorcycles and its prospects outside this segment don't look particularly attractive. The challenge for Harley's CEO, James Ziemer, is to ensure Harley's continued growth and prosperity in the company's second century.

The case calls for a careful identification of Harley's competitive strategy, analysis of the competitive advantage that this strategy has created, and examination of the resources and capabilities upon which the competitive advantage has been based.

■ TEACHING OBJECTIVES ■

There are two key areas for analysis: understanding why Harley's strategy over the past decade has been so successful, and making recommendations for how Harley can continue to build and sustain its competitive advantage into the future.

What students learn from the case is:

- How a company can establish competitive advantage against bigger, better-resourced rivals through a strategy that exploits to the maximum a few critical resource strengths (namely, the Harley image and reputation) while protecting against resource weaknesses (small scale, lack of technology, lack of global distribution).
- The importance of an integrated strategy. A key feature of Harley's strategy has been the integrated nature of its strategy – its product design, manufacturing, marketing, distribution, and customer support policies have all been built around the need to exploit and project the unique Harley image.
- How to analyze differentiation advantage. The case offers the opportunity to consider systematically how a company can create customer value through product and service differentiation using value chain analysis.

■ POSITION IN THE COURSE ■

I teach this case in the section of the course that deals with competitive advantage – this corresponds to Chapters 7, 8, and 9 of *Contemporary Strategy Analysis*. The case draws particularly upon Chapter 9, "Differentiation Advantage." It also draws significantly upon Chapter 8 ("Cost Advantage") to the extent that Harley must continually make efforts to maintain a

reasonable cost position against rivals with substantial scale benefits. Additionally, Harley-Davidson may also be explored as a mature industry case (see Chapter 12).

■ ASSIGNMENT QUESTIONS ■

1. Identify Harley-Davidson's strategy and explain its rationale.
2. Compare Harley-Davidson's resources and capabilities with those of Honda. What does your analysis imply for Harley's potential to establish cost and differentiation advantage over Honda?
3. What threats to continued success does Harley-Davidson face?
4. How can Harley-Davidson sustain and enhance its competitive position?

■ READING ■

R. M. Grant, *Contemporary Strategy Analysis* (6th edn), Blackwell Publishing, 2008, Chapters 7, 8, and 9.

■ CASE DISCUSSION AND ANALYSIS ■

1. *Identify Harley-Davidson's strategy.* The case provides useful practice in how to identify and describe a company's strategy. I define a company's strategy in terms of *where* it is competing (its corporate strategy – the choice of products/markets/activities) and *how* it is competing (its competitive or business strategy – the basis on which it is seeking to establish competitive advantage). (This is discussed in Grant, *Contemporary Strategy Analysis*, Chapter 1, sections on "Corporate and Business Strategy" and "Describing a Firm's Strategy" (pp. 19–22).) In terms of the *where* choices, Harley's strategy is distinguished by its *focus* – it concentrates on a single segment of the motorcycle market: super-heavyweight cruiser and touring bikes (recently augmented by the Buell range of sports bikes). Perceptive students may look beyond the product and argue that Harley's business is really about selling a lifestyle. While the bike is central to this lifestyle, it also comprises the supply of services (insurance, charity activities, owners' meetings and rides) and trademark licensing. This focus on lifestyle takes us directly into the *how* dimension of Harley's strategy. Its competitive strategy is distinguished by an unremitting quest for differentiation advantage. This strategy is implemented by a full range of functional strategies – from design through to customer support (e.g., the HOG activities). This analysis can lead to a discussion of the nature of the Harley appeal: terms such as "individualism," "freedom," "macho," and "rebel" tend to be mentioned. Clearly there is something about the Harley image that appeals strongly to the American male psyche and links today's urban professional with the lonesome cowboy of the Wild West.
2. *Why has the strategy been so successful?* The key here is a tightly focused strategy built on Harley's central resource – its image – and closely supported in all Harley's functions and value chain activities (integration). Thus, Harley has focused on the single segment where its traditional designs and brand image can be most effective, and eschewed investments in technology and radical new design – rather, it has reintroduced design features from the past. At the same time, Harley has shifted its customer focus from its traditional, younger, blue-collar segment to the affluent, older, professional segment ("menopausal professional males") capable of affording the \$18,000 and more for a leisure item. This shift also required the repositioning of many of Harley's functional strategies: design needed to incorporate such "luxuries" as electric starters, oil-tight engines, improved suspension, and ease of maintenance; manufacturing needed to become more quality focused; marketing needed to position Harley as celebrity accessories in movies and music videos and shift Harley's rebel image towards one of social responsibility (charity rides); dealerships needed upgrading so as to provide a retail environment more welcoming to dentists and investment bankers. At the same time, Harley has not neglected its cost position – as a low-volume producer, Harley is at a major disadvantage to Honda, Yamaha, and others. It has kept costs low through component standardization, keeping R&D low, concentrating on the technology of yesteryear (push-rod engines), and seeking free publicity as an alternative to expensive media advertising. Recognizing its role as a lifestyle product, Harley has built differentiation not just into its products but also into the company as a whole and all its relationships with its customers. Look at the identification between employees and managers with Harley owners and the common values that link the company and its customers.

3. *Resource and capability analysis.* Gaining deeper insight into Harley’s past strategy and establishing a basis for recommendations for future strategy requires an assessment of Harley’s resources and capabilities relative to its key rivals. A comparison between Harley and Honda is instructive. What emerges is Honda’s superiority of resources and capabilities throughout the value chain, with the exception of brand image and customer support.

	Harley	Honda
R&D	R&D budget \$180m. Lacks modern technology (no use of overhead camshafts, multivalve cylinders, etc.)	R&D budget \$4.4bn (not far below Harley’s total revenues!). Leader in automotive technology
Design	Mainly traditional design features. Leader in customization	History of innovative design. Able to draw on wide range of motorcycle models, plus auto expertise. Specialist design studios in several countries
Manufacture	Small scale (~300,000 bikes/year) offers limited scope for automation	10m bikes/year offers huge potential for scale economies and advanced manufacturing technologies
Distribution	Strong dealer network in US, weak elsewhere. Very close dealer relations	Worldwide dealer network.
Brand	Unrivalled image in heavyweight bikes	Strong reputation for quality, performance, reliability, and value for money
Marketing	Harley brand supported mainly by promotion, endorsements, and media events rather than advertising	Honda marque projected by advertising, involvement in racing, and by the ubiquity of Honda products from lawnmowers to luxury cars
Customer support	Unrivalled involvement with customers (owners’ group, charity activities). Multiple channels of communication with customers	Limited to dealer services.

4. *Threats and future challenges.* I ask students: “If you were Jim Ziemer, what issues would keep you awake at night?” The problem is that Harley’s market and financial performance is so strong that it is difficult for students to think of possible pitfalls. Nevertheless, it is critical that Harley looks ahead at all the possible eventualities that might derail its progress. These might include:

- Competition. Harley is challenged on two fronts. On one side, there are Honda and the big boys, all of which produce Harley-style V-twin cruisers but with more advanced technologies and lower prices. On the other is the stream of newcomers (Excelsior, Polaris, Enfield) producing retro-style bikes that compete more directly with Harley. Despite Harley’s claims that a Harley is unique, ultimately these competitors will be nibbling at the edge of the Harley market.
- Waning appeal of the Harley image. All lifestyle products run the risk that lifestyle changes will unseat their appeal. Will the macho, individualistic, leather-clad biker image be as popular in the 2000s as in the 1990s? If a Harley is a big-boy’s toy, competition may come not just from other motorcycles but from other costly toys (boats, personal watercraft, microlight planes). One possibility is that the appeal of heavy, noisy cruisers may wane relative to stylish, high-performance sports bikes (e.g., Ducati, MotoGuzzi, Triumph, Aprilia, and Kawasaki) or the smooth-riding, highly engineered touring bikes sold by Honda and BMW.

- Challenges of the international market. Does the Harley image travel? Judging by demand in Europe, S. America, Australia, and East Asia, the Harley big-bike look has a strong market appeal (European demand picked up strongly in 2006). However, this appeal is not based on nostalgia (Harley bikes have only recently penetrated overseas markets) and it is likely that the nature of the Harley appeal is different in Italy and Japan than it is in the US. Does Harley really understand its overseas markets, and what types of adjustments to its products and marketing strategies are needed in these countries?
 - Entrapment in a narrow niche market. Harley's limited international success raises a wider issue. To what extent is Harley trapped within a narrow niche market – the US market for retro-look super-heavyweight motorcycles – that it cannot expand out of? Whenever Harley expands outside its core market – either overseas or into smaller bikes – it meets limited success. However, its growth prospects within its core market are limited by the fact that it already dominates this market.
 - Risk of over-expanding capacity. Harley has increased its capacity over the past twelve years from 50,000 to 300,000 bikes a year. It has built up its fixed cost base and reduced the exclusivity of the Harley-Davidson – after all, it is now the market leader in heavyweight bikes. Harley remains vulnerable on two fronts: first, that a fall in demand leaves it with excess capacity; second, that the expanding market presence of Harley undermines its unique image.
5. *Opportunities for strengthening competitive advantage – cost advantage.* Reinforcing Harley's competitive advantage against potential threats requires continuing efforts to narrow the cost gap between Harley and its Japanese rivals. Measures might include:
- further efforts to standardize components across models;
 - continuing capacity expansion to further exploit scale economies in design, manufacturing, marketing, and distribution;
 - increased outsourcing of components and technology (note Harley's alliance with Porsche);
 - efforts to improve productivity through greater automation of manufacturing activities.
6. *Opportunities for strengthening competitive advantage – differentiation advantage.* Relying exclusively on Harley's traditional image to differentiate its motorcycles is an insufficient basis for sustainable differentiation advantage. Harley must continuously look for new means by which it can create value for its customers. Grant Chapter 9 outlines approaches for analyzing differentiation opportunities. The value chain analysis developed in Strategy Capsule 9.3 is especially useful as a framework for identifying new approaches to differentiation by Harley. Develop value chains for both Harley-Davidson and the motorcycle customer. Consider every activity that the motorcycle customer engages in, from information seeking, visiting a dealer, test-driving, financing, insuring, customizing, riding, servicing, repairing and (finally) selling his or her motorcycle. What can Harley do with its value chain activities to make the activities of the customer easier, cheaper, or more satisfying? Harley has already traveled a long way down, this path – it offers test-drives, customizing services, driving instruction for new riders, motorcycle insurance, and the HOG riders' group. What else can it do? Harley breakdown service? Harley wedding planning? Harley funeral services for motorcycle accident victims?
7. *Opportunities for product extension.* Buell was an interesting venture for Harley. It took H-D into a market segment where it had to build a brand and an image from scratch and where it competed much more directly with the sports models of European and Japanese manufacturers. As H-D builds its technological, manufacturing, and design capabilities, so it becomes better placed to compete in this market; however, can it hope to make significant inroads against the market positions of Honda, Yamaha, Suzuki, Triumph, and Ducati in this market? Would H-D be better sticking to its hogs, or does Buell offer H-D an opportunity to broaden its customer base and hedge against changing tastes in the heavyweight motorcycle market? The performance of Buell looks poor so far – despite new models, Buell's sales have not grown. Even more modest attempts to expand beyond Harley's traditionally styled models have encountered only modest success. Despite massive publicity that accompanied its launch, the liquid cooled V-rod has not become one of Harley's best-selling models.

■ UPDATING THE CASE ■

Up-to-date information on Harley-Davidson is available from the company's website: www.harleydavidson.com.