



case eight

Harley-Davidson, Inc., February 2004

TEACHING NOTE

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 successful manufacturer of heavyweight motorcycles.

The Harley-Davidson story is one of a well-focused, tightly integrated strategy, in which 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, technology-superior rivals such as Honda, Yamaha, and BMW.

Harley's situation in 2004 looks very favorable – despite capacity expansions at existing plants and new plants in Texas and Brazil, demand continues to outstrip supply and Harley continues to make inroads into markets outside of North America. Yet, threats to Harley's success remain. New and revived motorcycle companies are competing in the market for retro-look heavyweight bikes, the Japanese manufacturers have introduced Harley look-alikes with updated technology, superior features, and lower prices, and – as with any high-priced, luxury, lifestyle product – the continued appeal of Harley motorcycles cannot be taken for granted. The challenge for Harley's CEO, Jeff Bleustein, is to ensure Harley's continued growth and prosperity in the company's second century.

This note was prepared by Robert M. Grant.

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, with a particular emphasis on differentiation advantage. The case draws particularly upon Grant, chapter 9 ("Differentiation Advantage"). It also draws 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 (Grant, chapter 12).

ASSIGNMENT QUESTIONS

1. Identify Harley-Davidson's strategy and explain its rationale.
2. Compare Harley-Davidson's resources and capabilities to 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* (5th edn), Blackwell Publishing, 2005, chapters 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 upon which it is seeking to establish competitive advantage). (This is discussed in Grant, chapter 1, sections on “The Meaning of Strategy” and “Corporate and Business Strategy.”) In terms of the *where* choices, Harley's strategy is distinguished by its *focus* – it concentrates upon a single segment of the motorcycle market: super-heavyweight cruiser and touring bikes (recently augmented by the Buell range of sports bikes). In terms of *how* Harley competes, 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). 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 discussion 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 upon Harley's central resource – its image, and closely supported in all Harley's functions and value chain activities (integration). Thus, Harley has focused upon 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 \$16,000 and more for a leisure item. This shift also required repositioning 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 upon the technology of yesteryear (push rod engines), 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 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	Tiny R&D budget. Lacks modern technology (no use of overhead camshafts, multivalve cylinders, etc.).	R&D budget > Harley’s total revenues. Leader in automotive technology.
Design	Mainly traditional design features. Leader in customization.	History of innovative design. Able to draw upon 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.	3m bikes/year offers huge potential for scale economies and advanced manufacturing technology.
Distribution	Strong dealer network in US; weak elsewhere.	Worldwide dealer network.
Brand	Unrivalled image in heavyweight bikes.	Strong reputation for quality, performance, and reliability.
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	Level of customer involvement in owners’ group, charity support etc. that is unrivalled in the industry.	Limited to dealer services.

4. *Threats and future challenges.* I ask students: “If you were Jeff Bleustein, what worries 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 sides. At one end there are Honda and the big boys, all of which produce Harley-style V-twin cruisers but with more advanced technologies and lower prices. At 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). Even in motorcycles, a key trend of 2000–3 was the growing popularity of high-performance sports bikes (e.g., Ducati, MotoGuzzi, Triumph, Aprilia, and Kawasaki) and scooters (Piaggio, Honda, and a host of other companies).
 - *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. However, this appeal is not based upon 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 overexpanding capacity.* Harley has increased its capacity over the past 12 years from 50,000 to almost 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 in order 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 upon 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 9.4 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 the company 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 Harley 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? Would Harley be better sticking to its hogs, or does Buell offer 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. Even more modest attempts to expand beyond Harley's traditionally styled models have encountered only modest success. Despite the massive publicity that accompanied its launch, the liquid-cooled V-rod has achieved limited sales.

UPDATING THE CASE

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