



Harley-Davidson Motor Company:
An Industry and Company Analysis

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Brief History & Introduction: **Harley-Davidson Motor Company**

When asked about the staples of American society, a few things quickly come to mind: Cheeseburgers, Cowboys and Indians, Walt Disney, Levi Strauss jeans, and of course, Harley-Davidson motorcycles. Founded in 1903 by William Harley and Arthur and Walter Davidson, Harley-Davidson Motor Company has been at the center of American Society for over one hundred years.

The company began with a modest model with a “three-horsepower engine and was made in the Davidson’s family shed” (Grant, 522). Their next model, a two-cylinder, V-twin engine, birthed the classic deep rumbling sound that has become synonymous with Harley. After the “closure of the Indian Motorcycles factory in Springfield, Massachusetts in 1953, Harley became the sole survivor of the 150 US motorcycle producers that had existed in 1910” (Grant, 522).

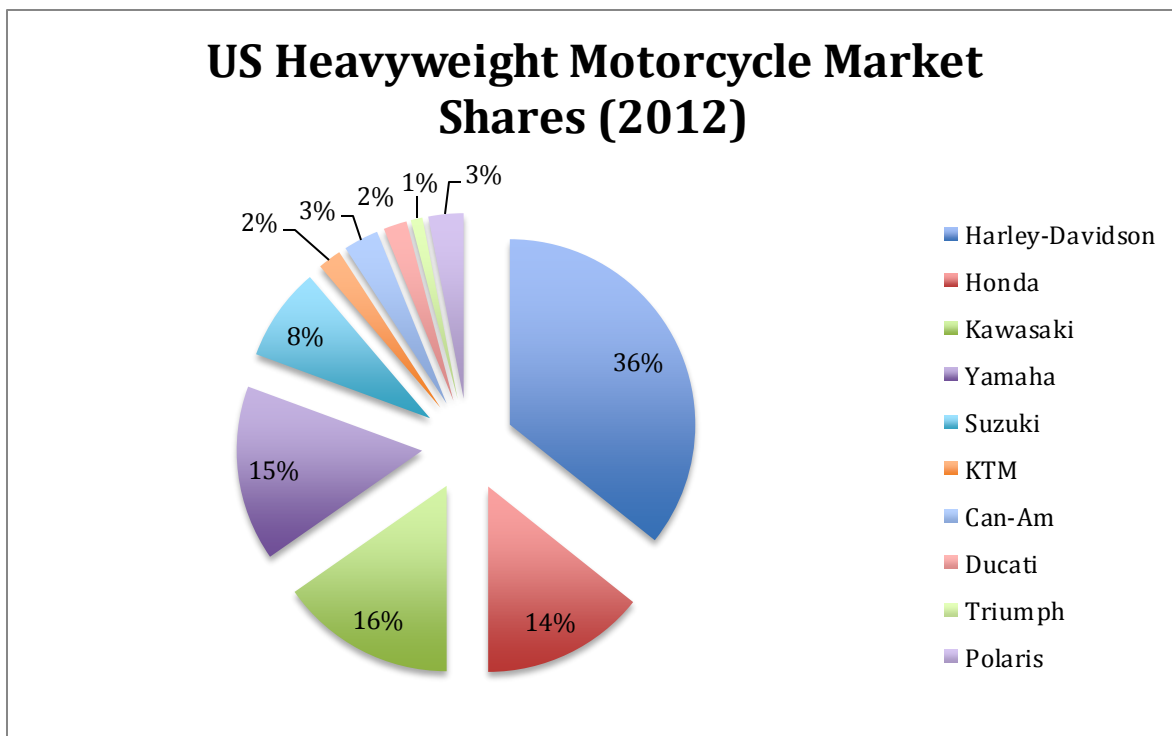
The company did not go without its challenges, however. The postwar era brought along “increasing affluence and the rise of youth culture [that] created a growing demand for motorcycles” (Grant, 522). Although Harley had a strong place in the US, most of this demand was satisfied by foreign imports. British companies, BSA, Triumph, and Norton took 49% of the US market with the Japanese increasing their share. Honda’s technological innovation of the four-cylinder CB750, which revolutionized the motorcycle industry, was miles ahead of the technology of Harley or the British companies. Eventually, Harley was acquired by AMF, which led to overproduction and a significant drop in quality, ultimately causing financial losses and less of the market share.

Harley’s senior managers leveraged the buyout of the company from AMF in 1981. In 1981 and 1982, the company “lost a total of \$60 million” (Grant, 522). After analyzing Japanese Just-in-time production systems, Harley was able to make its production capabilities more efficient. In 1986, Harley had increased sales to profitability enough to go public. Investments in new models and increasing demand led to sales “exceeding \$300,000 as of 2004, a tenfold on 1983”(Grant, 523).

External Analysis

Industry Overview

In this analysis, Harley-Davidson Motor Company will be classified as part of the Heavyweight motorcycle industry. According to Statista.com, this industry in the US, as did many others, took a large hit in total revenue after the Recession of 2008, dipping from \$6,637.2 million in 2008 to \$4,136.1 million in 2009 and only increasing to \$4,419.1 million by 2012 (Revenue of the U.S. Motorcycle Manufacturing Industry from 2001 to 2012 (in Million U.S. Dollars)). As of 2012, the market was skewed in favor of Harley-Davidson, who controlled 35% of the market, followed by Kawasaki and Yamaha (15%), Honda (14%), and Suzuki (8%) (Hawkes, Katelyn).



Ultimately, until the economy shows improvement and consumers feel comfortable enough to spend on luxury items, the heavyweight motorcycle industry will continue to show minimal growth.

The General Environment

Economic:

The Recession of 2008 still continues to effect buying habits of consumers. Due to the struggles, purchases of luxury items like cruising motorcycles have dropped and have only slowly increased, as shown by market revenues as stated above in the Industry Overview.

Technological:

Apple and Google have begun researching and producing automated driving technology that removes the need for human operation of vehicles. Models of automated driving vehicles have been produced, but have not hit mass production.

Political/Legal:

Regulatory challenges have restricted the growth of leisurely motorcycling in foreign countries like China. Challenges include difficulties getting motorcycle license plates and “PNC regulations ban motorcycles in many city centers and on elevated motorways” (Luk, Joseph). Also, a compulsory scrap policy requires all bikes be scrapped after 11 years.

Demographic:

A generational shift from the Baby-boomers to Millennials is showing through product and style trends. As Millennials begin to enter the workforce, Baby-boomers are retiring and leaving it.

The Industry Environment: Porter's Five Forces

Bargaining Power of Buyers:

The power of buyers in the heavyweight motorcycle industry is relatively high considering that companies in this market are heavily dependent on certain demographics. Baby-boomers, who have been the main target demographic for the industry, are getting to the age of retirement and losing the physical ability to

handle heavyweight motorcycles. Companies must now market and adapt to the Millennials, who typically are more in favor of sport and performance bikes instead of heavyweight cruisers (Wolter, Mackenzie).

Bargaining Power of Suppliers:

Companies using the preferred suppliers method creates more power for the supplier as contracts allow for long-term agreements that increase quality of the suppliers. Long-term contracts create trust between supplier and the companies.

Threat of New Entrants:

Due to a high capital investment and a mature industry, the threat of new entrants in the heavyweight motorcycle industry is low. Brand name, such as Harley-Davidson, adds to the emotion and effect of riding a heavyweight motorcycles. Harley has become a part of American society so new entrants will have to compete against high quality and high brand recognition (Wolter, Mackenzie).

Threat from Substitutes:

The main substitutes for heavyweight motorcycles include cars, scooter bikes, and sport bikes. Millennials, who are becoming a greater portion of the overall buyers market as Baby-boomers begin to reach ages where riding and buying bikes, tend to prefer sport bikes to the traditional heavyweight cruisers (Wolter, Mackenzie).

Rivalry from Existing Players:

There are four major players in the heavyweight motorcycle market: Harley-Davidson, Yamaha, Suzuki, and Honda. BMW, Kawasaki, and Ducati also have high brand recognition. No brand controls more than 35% of the market. Therefore, when considering the technological capabilities and quality of the products that are fairly similar, the rivalry from existing players is moderately high (Hawkes, Katelyn).

Strategic Groups

Harley's main competitors, Yamaha, Honda, Suzuki, BMW, and Ducati, all must compete with Harley's exceptional brand recognition. Focusing on this brand recognition places Harley and competitor, Ducati, in the first strategic group: Experience focused. While Harley has up-to-date technology, their main strategic advantage is the experience of driving a Harley – that loud, rumbling noise and showing off the wings on the brand while riding that classic heavyweight cruiser. One issue that presents itself to Harley and this group is the difficulty of extending to overseas countries. One reason that this group struggles in foreign countries like China is that most people in China use bikes to commute to work and loud, heavyweight bikes are not ideal for daily commutes (Luk, Joseph).

Companies like Yamaha and Honda have always been on the forefront of technological innovation. Honda was the first company to release the four-cylinder CB750. They represent the second strategic group: Performance Focused. These companies are able to perform better in countries like China and Japan due to that demographics' demand for high performance sport bikes that are easy and effective for daily commutes. Companies like Harley in 2010 have begun to produce "small, easily affordable bikes – such as mopeds – used for basic transportation" (Luk, Joseph).

Internal Analysis

Financial Analysis

Harley-Davidson's financials are a key component on internally analyzing Harley-Davidson and how well they are performing by comparing them against major rivals. On page 536 of case 7 in Appendix 2: Comparative Financial Data for Honda, Yamaha, and Harley-Davidson, we were able to compare and analyze their performances. Ending 2011, Harley-Davidson had the highest gross margin percentage at 42%, 7% higher than Yamaha and 14% higher than Honda Motor.

However, its net margin ending 2011 was \$-1,040,000, which was well below Yamaha and Honda Motors. Its operating income/assets percentage was highest of the three. Its inventory turnover also exceeded both Honda and Yamaha Motors. It had a remarkable return on equity in 2011 with 25% compared to Honda's 13% and Yamaha's 2%. By May 2012, the first-quarter financial results showed a year-on-year revenue growth of 16.7% and a net income growth of 44.3%, and Wendell anticipated that it would generate cost savings of around \$310 million over the year because of Harley's restructuring program (Grant, 532-33). So, Harley-Davidson looks to be on track after witnessing its first net in 2009; however, its estimated total sales in 2012 would be roughly 100,000 bikes short from what was shipped in 2006.

Tangible & Intangible Resources

When analyzing the Harley-Davidson Inc. case, the internal analysis part required that we distinguish between Harley-Davidson's tangible and intangible resources. The first major step was to determine its major tangible resources: property, plant, and equipment. Harley-Davidson's tangible resources are comprised of its super-heavyweight and heavyweight motorcycle (over 650cc). The heavyweight motorcycle market is comprised of three segments: cruiser motorcycles, touring motorcycles, and performance motorcycles. As of 2011, Harley-Davidson had a market share of retail sales of heavyweight motorcycles in North America at 55.7%, Europe at 13.7%, Asia-Pacific at 21%, and Latin America at 7%. Other resources that contribute to Harley-Davidson's performance is its other products contributing to revenue including sales of parts, accessories, and clothing and collectibles. In 2011, sales of these other products represented 14.8% of total revenue. In 2011, Harley-Davidson's non-motorcycle sales of parts and accessories were \$816,500,000 and general merchandise was \$274,100,000. Harley-Davidson's dealership network contributes to its tangible resources. In 2011, the US market had 635 dealerships, Canada with 69 dealerships, Europe with 369, Asia-Pacific had 230, and Latin America had 44 dealerships. The dealerships help penetrate international

markets. Harley-Davidson placed emphasis on its manufacturing operations, and, in 2011, Harley-Davidson had 15 main facilities located in the US, India, Brazil, and Australia (Grant, 523, 528-30).

The next step in our Internal analysis of Harley-Davidson Inc. was to determine the intangible resources: technology, skills, brand, and reputation. Harley-Davidson's intangible resources are key in distinguishing itself from other competitors. Considered one of its greatest assets, Harley-Davidson's brand image and customer loyalty are one of its major competitive advantages. Its "famed spread eagle signified not just the brand of one of the world's oldest motorcycle companies but also an entire lifestyle with which it was associated", and has been described as "the ultimate biker status symbol. . . a quasi religion, an institution, a way of life" (Grant, 524). The brand became central to the company's marketing and strategy because it recognized that it was selling the Harley Experience. Harley-Davidson increased its reputation with its customers by creating the Harley Owners' Group (HOG). HOG allows the company to become involved in organizing social and charity events, and it provided the organizational link for this sense of community. The HOG increases customer loyalty, and it was reflected in their continuing investment in Harley products because almost half the sales were to repeat customers (Grant 525). Harley-Davidson felt the need to improve dealer development to "increase support for dealers while imposing higher standards of pre- and after sales service, and requiring better dealer facilities" (Grant, 527). They were able to expand their offering of range of services such as: service and repair, financing, test-ride facilities, rider instruction classes, motorcycle rentals, consulting services for customizing bikes, and insurance services. Since dealer relations were a strategic priority, its Retail Environments Group established a set of standards and guidelines. They established the Harley-Davidson University to "enhance dealer competencies in every area, from customer satisfaction to inventory management, service proficiency, and front-line sales" (Grant, 528). The University helps employees gain skills needed for work. Harley-Davidson also relies on its financial services to generate profit. The Harley-Davidson Financial Services (HDFS) arm supplying credit, insurance, and extended warranties. In 2011, the HDFS attributed to

\$649,400,000 in sales. Lastly, the intangible resources include patents that were usually related to peripheral items such as: saddlebag mounting systems, foot-pegs, seats, backrests, electrical assemblies, and motorcycle music systems. Between 2000 and 20012, Harley-Davidson was awarded 188 US patents (Grant, 526).

Core Competencies

Harley-Davidson's core competency has been its root of success in developing a competitive advantage over its rivals. One major core competency of Harley-Davidson is its brand image and customer relationships. The formation of the HOG allowed for Harley-Davidson to connect with its customers through events and charities, allowing them to promote loyalty and build comradery amongst its employees and customers. The brand has allowed Harley-Davidson to gain a sense of American culture, and it helps provide the Harley Experience (Grant, 524-25). They placed a strong focus on their dealer development program because it helped increase support for dealers while imposing higher standards of pre- and after-sales service, and requiring better dealer facilities (Grant, 527). They also offered a wider range of services such as: service and repair, financing, test-ride facilities, rider instruction classes, motorcycle rentals, consulting services for customizing bikes, and insurance services. The Harley-Davidson University helped provide employees with the skill set they need and to "enhance dealer competencies in every area, from customer satisfaction to inventory management, service proficiency, and front-line sales" (Grant, 527-28). Lastly, their HDFS provided financial services that are fundamental in contributing to their success.

SWOT Analysis

Strengths:

Strengths help Harley-Davidson gain a competitive advantage over other companies within the industry. The first major strength Harley-Davidson possesses is its brand image and customer loyalty. Harley-Davidson's HOG allowed for Harley-

Davidson to connect with its customers through events and charities, allowing them to promote loyalty, and it gives Harley-Davidson riders a sense of community that builds comradery. They stress hard to give the customers' the Harley Experience, and they implemented programs like the Harley-Davidson University to help provide adequate services such as the HDFs. Another strength attributed to Harley-Davidson's success is its high quality of products. They have a good product range where customers can use service consultants to help customize bikes. Lastly, Harley-Davidson's sales of other products, merchandise and financial services, provide an advantage over other companies within the industry.

Weaknesses:

Weaknesses help attribute to Harley-Davidson's struggles and potential performances. A major weakness for Harley-Davidson is its high-quality products. Because of the high-quality products, the price is high. This can be a weakness because, in a recession, many customers will shy away from high costing items like they did so during the 2008 financial crisis. Another weakness for Harley-Davidson is its product differentiation. In 2012, they offered 34 different models, but much of its differentiation contributed to style changes and new paint designs (Grant, 526). Another weakness is its presence in international markets; Harley-Davidson has contributed much of its success from the US because it has a large amount of market share compared to international markets. Lastly, Harley-Davidson has a limited customer base because its dominance has been within the US with the brand bringing an American style experience.

Opportunities:

Opportunities are essential when looking for gaining competitive advantages over rival competitors. A major opportunity Harley-Davidson has is expansion abroad in emerging markets especially Asia and Latin America. It has the opportunity to expand products and services. Because they lack on product differentiation, they have an opportunity to expand and offer new product launches. Also, with the HDFs, they have the opportunity to increase its financial services. Harley-Davidson has a great opportunity to tap into women, African American, and military and veteran motorcycle riders. Lastly, Harley-Davidson can develop more

fuel-efficient motorcycles for environmental purposes, helping them attract more customers.

Threats:

Threats imposed on a company within an industry are something that needs to be taken cautiously. Increasing competition from rival competitors always poses a threat for Harley-Davidson, especially if other competitors have better financials and are more diversified. A major threat they are facing is if the next cohorts—Generation X and Generation Y—have the same cultural values that the baby boomer generation represented. The average buying age of Harley-Davidson motorcycles are increasing, so they are facing a threat in appealing to the upcoming generations. Lastly, environmental protection laws can pose a threat on Harley-Davidson if the laws prohibit some of their products.

Harley-Davidson's Current Strategies

After taking over CEO of Harley-Davidson, Inc. on May 1, 2009, Keith Wendell witnessed a period of declining output and sales, and he was the first CEO to witness Harley-Davidson post a net loss in 2009, its first in 25 years (Grant, 520-21). Wendell needed to take action to fix the crisis they were dealing with, so "Wendell's initial actions included restoring funding for Harley's consumer lending activity, cutting back production, laying off employee, discounting Buell bran and closing its plant, and putting recently acquired MV Agusta up for sale" (Grant, 521). His next priority was establishing "a bold, clear strategic direction that would maximize [Harley-Davidson's] opportunities going forward and restore the Company as a strong business that could consistently grow over the long haul" (Grant 521). The strategic direction included a comprehensive transformation strategy. The comprehensive transformation strategy called for a rethinking and structuring of the Company's manufacturing operations, the transformation of its product development system, and a drive to build distribution and grow sales in emerging international markets of Asia and Latin America (Grant, 521). Harley's product strategy is targeting customers interested in the heavyweight and

superheavyweight motorcycles that includes cruiser motorcycles, touring motorcycles, and performance motorcycles (Grant, 523). The strategy “was the idea that every Harley rider would own a unique, personalized motorcycle as a result of the company offering a range of customization opportunities”, and Harley-Davidson helped with the customization process by offering special services like “Chrome Consulting”. (Grant, 527). Another main strategic focus is promoting the brand image of the company and improve customer relations to help give the customers the Harley Experience. “The central thrust of the strategy was reinforcing and extending the relationship between the company and its customers (Grant, 525). The creation of the Harley Owners’ Group (HOG) allowed them to build a community and comradery with its customers that greatly improved customer relations because “almost half of all sales were to repeat customers” (Grant, 525). The distribution strategy Harley took on was to provide better retail experience, so they developed a Harley’s dealer development program that “increased support for dealers while imposing higher pre- and after-sales service, and recruiting better dealer facilities” (Grant, 527). The improvement of facilities and dealer development allows them to expand its range of services such as service and repair and financing, dealers offering test ride facilities, rider instruction classes, motorcycle rental, consulting services for customizing bukes, and insurance services. They established its Retail Environments Group to establish a set of performance standards and guidelines. They also established the Harley-Davidson University to “enhance dealer competencies in every area, from customer satisfaction to inventory management, service proficiency, and front-line sales (Grant, 526-27). Another strategy was focused in expanding sales internationally. Because Europe was in a recession in 2009-2012, even though they were the second-largest heavyweight motorcycle market in the world, they focused on increasing the growth in international markets of Asia and Latin America. So, establishing dealership networks was key to penetrating the international markets. Harley-Davidson’s supplier advisory council (SAC) “served not only to improve purchasing efficiency, but also to provide a forum to share information, ideas, and strategy” (Grant 531). Lastly, Harley-Davidson implemented a new management team that implemented a new approach built on

involvement, self-management, open communication, and team-based organizations (Grant, 531).

Major Problem

After analyzing the case, we found that the major problem Harley-Davidson Inc. is facing is that its “core market was the baby-boomer generation—and this cohort was moving more toward retirement homes than outdoor sports. Would the next cohorts—Generation X and Generation Y—have the same affinity for noisy, heavyweight motorcycles and the cultural value that Harley-Davidson represented” (Grant, 521-22). The upcoming generations posed a great threat with Harley-Davidson because the *New York Times* noted that “as Harley keeps most of its focus on its aging customers, rivals like BMW, Honda and Yamaha are attracting younger customers who seem less interested in cruising on what their old man rides” (Grant, 534).

Future Strategies

When analyzing Harley-Davidson Inc. case, we were able to find its strengths, weaknesses, opportunities, and threats. The SWOT analysis helped us determine where the Company stands amongst its competitors and helped us identify the major problem the Company is facing. So, our strategy looking forward is to help Harley-Davidson gain a competitive advantage over its rival competitors. Our first and major recommended strategy for Harley-Davidson Inc. is to focus more on the performance motorcycle segment because it was the most important segment in the European and Asia-Pacific markets, representing 62% and 65% of total heavyweight bike sales respectively (Grant, 524). Because Harley’s target customer generation is aging and is set to decline 2.5% between 2010 and 2015, we think that promoting performance motorcycles will help them attract the new generation of customers entering the market (Grant, 533). Also, since performance motorcycles represent a huge market share in European and Asia-Pacific markets, which Harley-Davidson operates in, we believe this to be a great strategic move moving forward. Another

strategic recommendation we have for Harley-Davidson is the tap into the tri-motorcycle market. We find this an appealing move especially since it will target the baby-boomer generation that has been their focal point for customers. The reason we fill this strategic move will be a great move is because the trikes offer additional safety and better control that appeals to the aging of the baby-boomer generation. Not only will this allow the Company to attract its original customer group, but it will also help attract women and other potential customers who did not feel safe riding an original motorcycle. Lastly, we recommend that Harley-Davidson continue product expansion and continue to tap into broadening its demographic base with programs targeting women riders, "Harlistas" (Latino riders), "Iron Elite" (African American riders), and "Harley's Heroes" (military and veteran riders) (Grant, 534). By doing so, its customer base will expand allowing it to provide more product differentiation.

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