

## **The Legend Continues, Harley Dynamics**

### **The man**

One man who has held onto this company is Willie G Davidson, after whose family, Harley-Davidson takes its name. In a NBC show, called *American Made*, he stated that this company is his hobby, his love and his passion. He says, "The products are emotional and therefore, we have loyalty second to none. The brand is world famous and I'm just proud to be part of it. I'm lucky that I can help keep the flame burning." His passion for the bikes began in his childhood. His father, William H Davidson was President of the Harley-Davidson Motor Company from 1942 to 1971. He had a great passion for riding and this was something that his sons -- Willie G and his younger brother John inherited. While, there was no pressure on the boys to join the firm, Willie G had a talent that would prove to be valuable. He could draw very well and while listening to history lectures in school, he didn't take down notes, instead he was sketching motorcycles!

He then sharpened his skills at the Art Centre and Design College in Los Angeles. He recalls, "After graduation, my portfolio was looked at by automobile design companies, industrial design firms and I actually wound up at a design firm in Milwaukee for a couple of years." At this job, he designed everything but bikes; he designed everything, from outboard motors to furniture. He couldn't design bikes right away because there was no designing department at his father's firm, so he moonlighted for the company. By 1953, his father realized the need for a full designing department and that's when Willie G finally joined the family firm. He says, "We are close to our customer, we ride these bikes, we collect them, we design them and so, we have an intimate understanding of the products and what they are all about. We try and understand its history over all these years and use our heads to make sure, we can keep it going for the next 100 years. I think it can go on forever, if we do it right. But every company is vulnerable as we all know."

### **The company**

The company has a rich and long history. It was founded in 1903, at the turn of the century when transportation was in a state of flux. Willie G explains, "The original four, the three Davidson brothers and one Harley; were in the process of designing and producing prototype motorcycle, so you could get to your destination easier than on a horse (which was the favoured mode of transportation being used then). They were struggling trying to build this and they were working in a little shack behind my great grandfather's house. They all had jobs, so they did this in their spare time."

"Railroads were big then and they all knew about machinery. They used to come home from work at night, go into the shack and start making parts. There were no auto part manuals then, so they had to do it all themselves. They built a motorcycle, that they thought would have durability and that would work okay." Around this time, the team ran into competition from another entrepreneur - Henry Ford. Willie G says, "Henry Ford created mass production and the Model Ts became equal in cost to a Harley-Davidson. So, back in the 1920s, everyone could have a car. So, we were no longer the cheapest mode of transportation." That's when Harley-Davidson made owning and riding a motorcycle a fun thing to do, which continues to be its unique selling proposition even today.

The bikes also found their way to the local and federal government. In 1908, the Detroit police department had been utilizing the bikes to help maintain law and order. During World War 1 and the Second World War, the Harley-Davidson founders were roped in to help with the war effort. They produced thousands of bikes for the US and its allies. These bikes were built to go over fields and rough roads, had high ground clearance, was painted olive green with a white star on the fuel tank and had a gun scabbard on the front fork.

In 1969, some of the owners of Harley-Davidson thought of diversifying their interests. Willie G, his father and brother did not want to do this and wanted to remain an independent company. But the company was an attractive cash cow, so the manufacturing group Bangor Punta approached Harley-Davidson shareholders and offered to buy their stock. To avoid this, the company leaders decided to look for a white knight - essentially a cash-rich third party, who understood what Harley-Davidson stood for. They found AMF, America Machine and Foundry; a manufacturing company that made a wide range of products from food and tobacco processing equipment to bowling balls. AMF came in and quickly established who was boss, by incorporating their logo on the bike's fuel tank. This marriage wasn't turning out the way it was intended. AMF realised how capital intensive the business was and the quality had begun to slip. With the American economy in a recession and the Japanese bikes coming in, their problems just seemed to be getting worse.

So, in the 1980s, the company came back to its original owners because AMF asked them to buy it back! So, they used their personal net worth, help from the banks and whatever they could raise personally to buy back Harley-Davidson. They managed to raise about \$80 million. They had to rescue the company from debt and they were able to do it because they were passionate about it and believed in the brand.

But 1982-83 and 1984 were rough years because Japanese manufacturers like Kawasaki, Suzuki and Honda began selling in the US in increasing numbers and were able to build bigger bikes at lower costs. And this began to tell on Harley-Davidson's balance sheet.

The plant was operating at 50% capacity and struggling to maintain the 13% market share they had. They had to layoff 1,800 employees. Even the banks were thinking of pulling the plug on them. So, they went to the government to ask for assistance in putting curbs on Japanese imports, which the government agreed to do. And within a timeframe, Harley-Davidson bounced back. The company was held up as an example of American competitiveness and was even given a stamp of approval by President Ronald Reagan himself, who came to their plant and gave them a congratulatory speech.

Keeping the customers coming is a challenge, which they are more than geared up to meet. As Willie G Davidson says, the company has brand loyalty and recognition and some new products lined up as well. So, those die-hard Harley-Davidson bikers can ride on into the sunset. Willie G left the company in 2011 in retirement.

Harley-Davidson sustains a loyal brand community which keeps active through clubs, events, and a museum. Licensing of the Harley-Davidson brand and logo accounted for \$40 million (0.8%) of the company's net revenue in 2010.

### Financial crisis

According to Interbrand, the value of the Harley-Davidson brand fell by 43% to \$4.34 billion in 2009. The fall in value is believed to be connected to the 66% drop in the company profits in two quarters of the previous year. On April 29, 2010, Harley-Davidson stated that they must cut \$54 million in manufacturing costs from its production facilities in Wisconsin, and that they would explore alternative U.S. sites to accomplish this. The announcement came in the wake of a massive company-wide restructuring, which began in early 2009 and involved the closing of two factories, one distribution center, and the planned elimination of nearly 25% of its total workforce (around 3,500 employees). The company announced on September 14, 2010 that it would remain in Wisconsin. In 2009 Harley Davidson reported a loss as a consequence of the financial crisis. In 2011 things were close to normal and the Company reported increased market shares in both the US (55%) and in Europe (14%), but in a declining market. Income increased substantially compared to 2010.

### Current model designations

Harley has a carefully build up product line, with the following product groups and types.



883 Sportster Hugger



The all new (2012) Softail Slim

- **Sportster** With the exception of the street-going XR1000 of the 1980s and the XR1200 most Sportsters made for street use have the prefix XL in their model designation. For the Sportster Evolution engines used since the mid 1980s, there have been two engine sizes. Motorcycles with the smaller engine are designated XL883, while those with the larger engine were initially designated XL1100.
- **Dyna** models utilize the big-twin engine (F), small-diameter telescopic forks similar to those used on the Sportster (X), and the Dyna chassis (D). Therefore, all Dyna models have designations that begin with FXD, e.g., FXDWG (Dyna Wide Glide) and FXDL (Dyna Low Rider).
- **Softail** models utilize the big-twin engine (F) and the Softail chassis (ST).
  - Softail models that use small-diameter telescopic forks.
  - Softail models that use large-diameter telescopic forks similar to those used on the touring bikes (L) have designations beginning with FLST.
  - Softail models that use Springer forks with a 21-inch (530 mm) wheel have designations that begin with FXSTS.
- **Softail** models that use Springer forks with a 16-inch (410 mm) wheel have designations that begin with FLSTS.

- **Touring** models use Big-Twin engines and large-diameter telescopic forks. All Touring designations begin with the letters FL, *e.g.*, FLHR (Road King) and FLTR (Road Glide).
- **VRSC** models utilize the Revolution engine (VR), and the street versions are designated Street Custom (SC). After the VRSC prefix common to all street Revolution bikes, the next letter denotes the model.

### **Harley Owners Group**

The **Harley Owners Group** (HOG) is a sponsored community marketing club, operated by Harley-Davidson for enthusiasts of that brand's motorcycles. The HOG is "the granddaddy of all community-building efforts," serving to promote not just a consumer product, but a lifestyle. The HOG has also served to open new revenue streams for the company, with the production of tie-in merchandise offered to club members, numbering over one million strong, making it the largest factory-sponsored riding club in the world. The Harley-Davidson community was the prototype for the ethnographic term subculture of consumption, defined as "a distinctive subgroup of society that self-selects on the basis of a shared commitment to a particular product class, brand, or consumption activity."

The Harley Owners Group was created in 1983 as way to build longer-lasting and stronger relationships with Harley-Davidson's customers, by making ties between the company, its employees, and consumers. HOG members typically spend 30% more than other Harley owners, on such items as clothing and Harley-Davidson-sponsored events. Much of the intent of this branding effort is presenting Harley-Davidson as an American icon, with the focus on authenticity and pride in being American-made. All of this is credited with turning flagging sales around, and allowing the Harley-Davidson company to grow again.

### **HOG delivers**

Elements of the program which are available for HOG members are:

#### **Roadside Assistance**

You're automatically covered when you need it most. H.O.G.® Roadside Assistance Standard Package comes with a one-time coverage up to \$100. (Upgrades available)

#### **H.O.G.® Events**

Participate in anything from local chapter rides to pin stops, to state and national rallies.

#### **HOG® Magazine**

Packed with riding stories, product info, H.O.G. news, member stories, and more, *HOG* magazine has become one of the most popular magazines in the motorcycle industry.

#### **Touring Handbook**

The Touring Handbook features H-D road maps for the U.S., Canada and Latin America with a quick reference to dealer information.

#### **H.O.G.® ABC's of Touring Contest**

An alphabetical "Scavenger Hunt" for you and your Harley-Davidson® motorcycle! Earn points and win prizes. NEW FOR 2012! Spell out the word SWITCHBACK by using photos from specific locations to enter into a drawing for a 2013 Harley-Davidson Switchback motorcycle.

And there is more:

AT&T Wireless  
 Best Western Ride Rewards®  
 Harley-Davidson® Insurance  
 H.O.G.® Mileage Program  
 Chapters  
 Motorcycle Shipping  
 Member Services Center  
 Harley Davidson Finance



Daytona's Bike Week 2012, Main Street packed with Harley's

### Ladies of Harley

A separate group in the HOG, Ladies of Harley. Herewith a typical sort of contribution from a lady of Harley and her dedication to the brand and the influence it has on her lifestyle.

"I have been on the back on and off bikes through out the last 25 years never ever thought about having my own bike until...2008 a good family friend from growing up in Florida came to visit my brother and I in Maine. She currently lives in Alaska and works 3 weeks on and 3 weeks off and got her bike in 2006. She rides all over, and when she came to Maine I was at a changing point in my life, my 3 kids were pretty much grown and off to college or working. My 28 years of marriage were done and I wanted to do something with people, so I saved for 1 year and went on line and bought a used 2002 Harley Heritage Classic. In hindsight probably too big but I don't fall over anymore; well for the last year anyway and I love my bike. I have met some amazing riders, male and female, and made some good friends. People love to come up and ask about your bike; how long have you been riding? Etc. and usually even more so when its a woman. I have a neighbor that bought a bike 3 days after me; neither one of us had ever rode a motorcycle before so we had the same learning curve, in Maine there is an old air strip now used as a drag strip so she and I would go practice there until we felt we would not cause havoc on the rode and rode we have; our season is a bit shorter than other places but a beautiful place to ride, I had to take Pepto-Bismol (pills to keep your stomach calm) the first 3 months as I was very nervous but one day it just clicked and I was on my way. No more Pepto and the best part is if you fall over, people for the most part are there to help you up and of course crash bars are a big knee saver. I have had double knee replacement since I bought the bike and it hasn't slowed me down and it actually feels as the best thing I ever did. My brother lived through talking me out for group rides and supports me still. The biking family is friendly and a great place to meet new people and for me, most recently the new love of my life. I would encourage any one to give it a try; it will change your life and the way your think, and every day is a GOOD day"



MDA's Women's Ride "ladies make muscle"

### Steps towards export to India

In August 2009, Harley-Davidson announced plans to enter the market in India, where, according to press releases, it expects to start selling its motorcycles in 2010. The company has established a subsidiary to be located in Gurgaon, near Delhi, and has begun the process of seeking dealers. Plans to enter the Indian market have been delayed for several years, due to high tariffs and emissions regulations. The pollution regulations have recently changed, but the tariff problem is yet unresolved. In 2007, U.S. Trade Representative Susan Schwab and the Minister for Commerce and Industry of India, Kamal Nath, had agreed that Harley-Davidson motorcycles will be allowed access to the Indian market in exchange for the export of Indian mangoes. However, India had not specified emission standards for motorcycles over 500 cc displacement, effectively prohibiting the import of Harley-Davidsons, along with most models of other manufacturers. Plans to export to India were also held up by import duties of 60% and taxes of 30%, which effectively doubled the sale price. A Harley-Davidson spokesman said the company thinks demand is high enough to overcome the tariffs, and chief operating officer Matt Levatich said they would continue to push for lower tariffs.

Harley Davidson is introducing 12 models in India from the range of motorcycles. The motorcycles are completely built units and will be imported to India, thus attracting a tax over 100% in the price range of 695,000 rupees and 3,495,000 rupees ex-showroom. The bookings started in April 2010 and the motorcycle delivery will commence from June 2010. To begin with, Harley Davidson would have five dealerships (Delhi, Mumbai, Bangalore, Hyderabad and Chandigarh) with the aim of increasing the dealerships to more than 20 in the next five years. In November 2010, Harley-Davidson said that it will start an assembly facility for complete knock down (CKD) kits of its motorcycles in India by the first half of 2011, making it only the second CKD facility outside the US.

### Ladies of Harley in India

Fahima Shamim, successful Indian entrepreneur, and a dedicated Harley Davidson Rider, has asked for a Dealer Prospect Handbook which contains all information necessary to start, in a sort of franchise form, a Harley Dealership in India. There are a number of opportunities available and as she already owns a niece piece of land in Panaji, the capital of the smallest Indian State, Goa; which is suitable to build a landmark Harley dealership. Being a lady Harley Rider she expects to play a major role in the Indian Ladies of Harley and convince a large number of Ladies to ride with her, and obviously buy a Harley from her. Through a friend she expects to find more suitable pieces of land for her dealer and retail activities.

Harley claims that their dealers are not going to enter a franchise formula, but are going to be truly independent owned and operated businesses with independent entrepreneurs. They will not charge a franchise fee; but the setup of the average dealership requires a net worth of INR 27.275.000 (approx. 400.000 euro) and liquid assets of INR 13.650.000. (approx. 200.000 euro). Fahima expects, with the little help from her friends, to get the required funds and is very keen to start the build of her company. She plans to establish two dealerships in Goa and plans the set up of four HD apparel stores.

Tim McGregor, responsible for the Indian operations of Harley Davidson is very positive about Fahima' project proposal and gives her the green light based upon Harley's own market research. Harley does their own research and will not rely upon information from other than their own sources. Obviously this research is available for Fahima.

### Fahima's roll out

For the dealerships Fahima will need a total of 800.000 euro (in rupees) and expect to invest another 400.000 euro's in liquid assets, as indicated by Harley Davidson. For the HD-shops she will need another 100.000 investment and 50.000 in liquid assets. She will start with the HD dealerships and plans on getting the first one up and running in 2013, and the second in 2014. Her two HD apparel shops will start in 2015.

Fahima assumes her businesses will be up and running during the full calendar year. For all practical purposes she calculates with a desired return of 15% on the capital invested, and for calculating purposes she assumes all investment is taking place before the first year of operation, and profits will remain unchanged for the period of analysis.

### The numbers

Statement of income per dealership in euro's

Statement of income	
Sales	1.500.000
Cost of sales	950.000
margin	550.000
Costs:	
Personnel	150.000
Building (including 10.000 depreciation)	45.000
Several (excluding deprecation)	25.000
Total costs	220.000
Pretax Profit	330.000

Statement of income per HD shop in euro's

Statement of income	
Sales	250.000
Cost of sales	150.000
margin	100.000
Costs:	
Personnel	25.000
Building (including 5.000 depreciation)	15.000
Several (excluding depreciation)	5.000
Total costs	45.000
Pretax Profit	55.000

Note: For the case a number of public sources has been used. Ladies of Harley and Fahima's roll-out by Bob Fetter, may 2012.

### Questions

1. Harley Davidson has a long history in serving customers who want to buy motorcycles. Their brand value is very high.

- a. Name the four factors which determine brand value.
- b. Indicate how Harley Davidson does on those four factors

2.

The entry of Harley in India is a project which, we assume, has been carefully analyzed.

- a. What eight factors would you use to determine the market attractiveness of the Indian market for Harley Davidson
- b. Indicate the degree of risk you would attach to the individual factors; include your argumentation

3.

In HOG (Harley owners Group) Harley Davidson has a strong program to increase customer satisfaction.

- a. Describe how a customer satisfaction plan should be structured
- b. Describe the elements of Harley' customer satisfaction plan
- c. Indicate the elements Harley could improve upon

4.

STP (segmenting, targeting and positioning) is one of the key aspects of the commercial process.

- a. Describe how Fahima could address STP in India
- b. Give a detailed analysis of the target group for Fahima
- c. Indicate which elements in buying behavior could be specific for India; including argumentation

5.

Fahima has an ambitious investment plan.

- a. Determine the Cash Flows of Fahima's investment plan
- b. Determine the Net Present Value of the investment plan
- c. Advise Fahima of the desirability of her plan, including major financial aspects and major marketing aspects

6.

Harley Davidson seems to have found a way to communicate with their target groups on a truly global basis.

- a. Describe the major opportunities a company has to communicate globally
- b. Describe the way Harley Davidson does that based on the information you have
- c. How do current communication opportunities (f.e. social media) support the way Harley Davidson communicates?

7.

Harley uses the HOG membership as a means of keeping track of customer information.

- a. Describe the elements of a CRM system
- b. Indicate which elements are covered by the information from HOG and which elements are not
- c. How could Harley Davidson obtain data to comply with CRM requirements?

End