

HARLEY - DAVIDSON INC.  
MOTORCYCLE INDUSTRY

## INTRODUCTION

The purpose of this report is to develop a strategic corporate objective for HarleyDavidson Inc., a publicly traded, employee owned manufacturer of heavyweight motorcycles, recreational and commercial vehicles, military defense items, and small engines, distributing its products to domestic and international markets targeting all men and women of all ages.

## INDUSTRY AND COMPETITIVE MARKET

The industry under study is the motorcycle industry consisting of five major manufacturers: one American (Harley Davidson), and four Japanese (Honda, Yamaha, Kawasaki, Suzuki) and some European companies (mainly BMW of Germany and some other Italian companies). Most companies market their motorcycles and accessories on a worldwide basis, handling international trade through foreign distributors and domestic sales through franchised outlets. Industry sales of motorcycles were shrinking in the early 1990s because of the recession and the competition from computers and electronic products decreasing consumers' discretionary income. Sales of accessories and parts make up 36% of total retail sales and is a viable area for producers to explore because people want something to differentiate their bikes. Previously, motorcycles were viewed as a cheap means of transportation. By 1992, they came to be viewed as a recreational, or a luxury item. This new perception of motorcycles led to the introduction of more expensive models with higher prices. This led to the introduction of consumer financing, one of the fastest growing service areas in the motorcycle industry.

## MISSION

Harley's strategic objective is to continue to provide safe, high technology heavyweight bikes and keep customer satisfaction at high levels. This quality vision more than doubled Harley's market share and increased its brand loyalty.

## EXTERNAL PLANNING PREMISES

### CUSTOMERS

They can be divided into 2 categories men and women.

Men. A. Men under 30. This group accounts for 44% of all sales. Therefore, a great opportunity exists here because of the group's size. This group's members buy motorcycles for their transportation and recreation needs. Men in this group buy more of mopeds, scooters and entry level lightweight road bikes.

B. Men between 30 and 50. This age group makes up 45k of buyers another large area providing opportunities for firms. The motorcycles most frequently purchased are the heavyweight tourers and cruisers. Many buyers are married couples looking for an alternative to taking the car out for weekend drives to the country.

C. Men over 50. This group accounts for about 11% of motorcycle sales. The heavyweight touring class and the middleweight road bike categories account for most of the sales here.

Women. This group is a segment that is growing at a fast rate, thereby representing an opportunity area. Firms to be successful here are to provide smaller, easier to handle, comfortable, and good quality bikes to build up brand loyalty.

## PRODUCTS

Three types of products/services are being offered motorcycles, accessories, and financing services, all related to the sale of the main product motorcycles.

**Motorcycles:** It includes mopeds or scooters (with engines under 125cc which are used as an alternative to walking), accounting for about 17% of total motorcycle sales; lightweight motorcycles road bikes, dirt bikes, dual purpose bikes (with engines ranging from 125cc to 499cc), accounting for 51% of sales; sport motorcycles street bikes, and superbikes (with engines ranging from 450 to 749cc) accounting for 13% of sales; heavyweight motorcycles cruisers, tourers (ranging from 750cc to 1500cc) accounting for 19% of sales.

**Accessories:** Aftermarket accessories, such as saddle bags, higher windshields, customized seats, and clothing items are produced or contracted to be produced by all leading manufacturers. Since these items realize high profits and strengthen customer relations and customer loyalty, this area is providing an opportunity for companies. To succeed here, firms provide a wide product line, of stylish items, and aggressively advertise/market them.

**Financing Services:** As prices of motorcycles increased well above the reach of many motorcycle enthusiasts, manufacturers begun to set up consumer credit arrangements falling into 3 categories consumer, dealer, and corporate financing. Financing services are vital for success in the industry and firms unable to provide them will lose market share. To succeed here, firms are to provide a wide variety of flexible (in terms of maturity and payment arrangements) plans.

#### MARKETS

Although motorcycles are sold internationally, 3 main geographic markets comprise the bulk of motorcycle sales North America, Asia, and Europe. The largest is the North American Market (USA and Canada account for about 60% of this market) accounting for 60% of worldwide motorcycle sales. With the baby generation aging, opportunities exist for the penetration of new markets.

The Japanese market accounting for a great chunk of the Asian Market is an untapped one for foreign manufacturers. Government regulations and trade policies make it difficult for foreign manufacturers to enter though. Most Asians consider motorcycles as a basic means of transportation. Major target areas include China, Korea, Taiwan and Vietnam.

The European Market is another market with great potentials since Europeans have a higher disposable income and enjoy a higher standard of living. Eastern Europe is not offering a good deal mainly because of its unstable political and economic environment.

To succeed in these markets, firms are to modify products to meet local needs, provide after sales service, expand distribution networks, create strong customer

#### COMPETITION

Competition in the motorcycle industry consists of only a handful of producers worldwide. The Japanese producers Honda, Yamaha, Kawasaki, and Suzuki are producing a full line of motorcycles ranging from scooters to heavyweights, and together control the largest share of the market. Their wide product line though has also created some customer complaints to them (especially true for Honda and Kawasaki) for low quality service. This significantly decreased their market shares. Japanese companies' success began with copying other products, but evolved to depend on innovative designs and technology. Harley Davidson is producing heavyweight motorcycles emphasizing good quality product and after sales service, thereby building up brand loyalty.

Honda is the largest company in terms of size, financial backing, and reputation. It is offering the widest selection of styles, classes and sizes within the heavyweight category. This wide product line hurts Honda since salespeople have limited knowledge of each product. Kawasaki's products include a full line of motorcycles, all terrain vehicles, jet skis and other. It is the leader in

superbikes manufacturing but US legislation is limiting the number of sports bikes to be imported because of safety reasons. Yamaha produces Harley clones but lacks Harley's image. Being a market follower, Yamaha is to face many problems. BMW is famous of producing quality products but its high prices hold it from expanding sales.

#### INTERNAL PLANNING PREMISES

##### CUSTOMERS

###### 1. Men.

Under 30: This segment is growing since men in this category look for a cheaper alternative means of transportation and for recreational purposes. Harley is to produce high quality, safe bikes, with radical styles and provide them at reasonable prices to build up brand loyalty.

30 50: Recent demographic profiles show that the median age of buyers of Harley products is 35 and their customers' median household income is about \$45,000. These customers account for a great market chunk and, therefore, provide an opportunity for Harley, which is to provide them with safe, high performance, good quality bikes to increase brand loyalty and succeed in this segment.

Over 50: Motorcycle lovers still want to ride Harleys when they are above 50 years of age but they now look for more comfortable, easy to use bikes. Harley is to provide them with both of them in order to penetrate this market.

##### PRODUCTS

Motorcycles. Harley Davidson produces only heavyweight motorcycles (with enginedisplacements of 750cc or greater) that are categorized into touring and cruiser motorcycles.

Touring motorcycles are designed for long distance riding and feature many car like features (i.e., trunks), and provide Harley with the greatest profit margin. Cruisers are styled after early motorcycles and are the kind most often associated with Harley. They provide a very low profit margin because of their low prices used as a means to attract young customers. Harley is to increase its R&D to improve product designs, quality, and safety. It is also to offer a guaranteed resale value (that most Japanese firms are lacking), offer a high quality after sales service and, therefore, build up its brand loyalty.

Accessories. This category includes a new line of riding and fashion apparel bearing the Harley Davidson insignia. These products are distributed to Harley retailers and outlets in the retail clothing market. Harley is to provide a wide variety of stylish products and aggressively market them.

Financing Services. Harley offers financing through a joint venture with Ford Motor Credit Company (FMCO). Harley due to its lack of capital, avoided forming its own subsidiary providing financing services something that Honda and Kawasaki have already done. Harley is to offer a wide variety of flexible plans to meet this great opportunity that arose due to inflated prices of motorcycles and willingness of people to use credit lines as a way to improve their standard of living.

##### MARKETS

Harley is the established leader of heavyweight motorcycles in the North American market, accounting for about 60% of the market share. The size of its market share provides an opportunity for Harley to exploit. Its customers are the most loyal of any other brand and its products have great reputation. Foreign markets are growing very fast because customers there are obsessed with Harley's quality and safety bikes and provide a great opportunity for Harley to exploit. The main problem is Harley's limited production capability, putting customers in a waiting list for a couple of months. To succeed here Harley is to create good customer ties, provide after sales service, build up its customer loyalty, expand its distribution network, and modify its products to meet local customer needs.

## DECISION CHART

Alternative 1 calls for the manufacturing of all types of motorcycles, current accessories line, and providing financing services through FMCO, targeting all customers in both the domestic (70% emphasis) and foreign markets (30% emphasis).

Alternative 2 includes the expansion of the accessory line, offer financing services through a wholly owned subsidiary and manufacture sport and heavy weight motorcycles, targeting men (90% emphasis) and women (10% emphasis) in both the domestic and foreign markets (equal emphasis on both).

Alternative 3 says that Harley should manufacture only heavyweight motorcycles, but expand its accessory line and provide financing services through FMCO, targeting men (95% emphasis) and women (5% emphasis) in both the domestic (60% emphasis) and foreign markets (40% emphasis).

### Decision

The first alternative is based on the idea that Harley should capitalize on its current reputation and success by rapidly increasing demand, and by expanding its product line to include all kinds of bikes. This will enable Harley to match its competitors (i.e., Honda and Kawasaki) wide product lines and gain market share from them. This would also create major problems since increased quantity will destroy Harley's good reputation of producing safe, high quality, high performance bikes, thereby decreasing brand loyalty. Also, Harley is to produce lightweight, sport, and heavyweight motorcycles and that is to require additional capital that the firm is lacking. Therefore, Harley is to cut down on R&D and products quality and eventually lose out. Honda and Kawasaki demonstrated well that effect since their market shares decreased significantly.

Alternative 2 calls for an expansion of the accessory line that is experiencing an increasing demand. The main focus of Harley will be on men it is to provide lower priced, high quality, safe, stylish products to its customers. Harley is to try to maintain its brand loyalty, good quality, after sales service, and strong customer ties (all major competitors are lacking these keys to success). The major drawbacks here are Harley's plan to pay equal emphasis on both domestic (its leading position here gives the firm a competitive advantage over its foreign competitors) and foreign markets. Since Harley is unable to meet demand for its products, and modify its products to meet local demands, it is to fail in succeeding in the foreign markets while losing out in its high revenue producing domestic market. Also, more capital is needed since Harley is to create its own financing Subsidiary company. That is to cut down on Harley's ability to invest on R&D, and produce high quality products. Also, 10% emphasis on women is considered too large, since women account for less than 5% of Harley's customers.

Alternative 3, which is the one that I recommend, capitalizes on Harley's strengths. The company is to produce only heavyweight motorcycles, thereby focusing its R&D on producing safe, good quality products. The company is to guarantee a high resale value and provide good after sales service. Also its decision to stay with FMCO financing gives the company an additional financial advantage to be used in targeting specific marketing niches. Customers under 30 years of age are to be provided with safe, stylish, high quality products at reasonable prices, thereby increasing brand loyalty. Safety issues are not being focused by the Japanese and that gives Harley a competitive edge here though they can provide their products at lower prices. Customers from 30 to 50 years of age are to be provided with high performance, safe products, building up Harley's brand loyalty that is considered the strongest, especially in the domestic market. Customers over 50 years of age are to be provided with comfortable, easy to handle bikes to increase their convenience. Foreign bikes are lacking this key and are expected to be outperformed by Harley. Harley's line of accessories (more emphasis on clothing) is to be expanded by providing a wider product line. That by itself

would advertise its products and increase brand loyalty. Its plan to focus on the domestic market with 60% emphasis and on the foreign market with 40% emphasis is both good and bad. It is good in the sense that international demand for Harley products is increasing and that would increase the company's revenues since it will expand its distribution network, provide after sales service, and appear there with an already established brand loyalty. It is bad though to expand with 40% emphasis in the foreign markets because Harley is not strong in meeting consumer demand that is expected to grow even more and dissatisfy both domestic and foreign customers. Surely, Harley can solve this problem by getting loans, thereby expanding its plant capacity and meeting this increased demand. The future cash flows that will arise due to increased sales will be used to repay these loans and maintain the company's good credit rating.

#### SWOT ANALYSIS

Harley's high R&D accounts for innovative designs providing Harley with unique product designs that set Harley apart from its competition. In order to achieve that, Harley is to increase its R&D to improve product designs, quality, and safety. It is also to offer a guaranteed resale value (that most Japanese firms are lacking), offer a high quality after sales service and, therefore, build up its brand loyalty. Harley also, provides a wide variety of stylish accessory products and aggressively market them.

Harley due to its lack of capital, avoided forming its own subsidiary providing financing services something that Honda and Kawasaki have already done, and that is a wickeness for the company. That lack of capital also makes the company unable of producing the amount of products needed.

There are some oportunities for the company, For example the expansion of its markets o Asia and Europe. In addition, of having its own financial services is a profitable expansion.

Some of the threats are the tarrifs that might exist in other markets, and the immitation of Harley's products from other competitors.

#### STRATEGIES

The strategies that the company might use have to do withe expansion to other markets like Asia, or Europe in order to increase sales and market share. In addition the creation of its own financial services could bring more profit. Harley should give a lot more emphaiss to the male customers and also increase the emphasis on the foreign market close to 40%.

#### IMPLEMENTATION ISSUES

Some of the problems that the previous strategies may face depend on the lack of capital. Of course a loan could be beneficial since the returns from the sales would be enough to pay back the loan. In addition, exports in Europe are not that easy since the products are going to be taxed more, since they come from a country outside the European community. In the future a subsidiary in one of the European community countries would relax the tarriffs.

#### TOWARDS THE FUTURE

Towards the future the company is expected to do very well and increase its market share. The management objectives is expected to be the same as the current ones. Therefore the company is expected to manufactore only heavyweight motorcycles, but with the use of some loans will be able also to increase sales in Asia and Europe.

#### I ) DECISION CHART

Kind of Decisions	Alternative 1	Alternative 2	Alternative 3
Product Kind motorcycles	*Lightweight, sport, and heavyweight motorcycles.	*Sport and heavyweight motorcycles.	*Heavyweight only.
of accesso- increasing em- phasis on clothing.	*Stay with current line of accessories	*Expand the line of acces- sories to include more items.	*Expand the line ries giving
services through	*Financing Services through FMCO	*Financing services through a wholly-owned subsidiary.	*Financing FMCO.
Consumers male cus- emphasis on	*Target all customers from young to old.	*Concentrate on males (90% emphasis)	*95% emphasis on tomers and 5%
	*10% emphasis on females		females.
Ownership	*Keep as is	*Keep as is	*Keep as is
Markets dome- emphasis on	*70% emphasis on the domestic and 30% on the foreign markets.	*Equal emphasis on the domestic and foreign markets.	*60% emphasis on the stic and 40% the foreign market.
Management	*Keep as is	*Keep as is	*Keep as is

