

# Case 7 Harley-Davidson, Inc. in 2018

For us and for our loyal customers, the motorcycles we build aren't just motorcycles. They are living pieces of American history, mystique on two wheels. They are the vehicle with which our riders discover the power, the passion, and the people that define the Harley-Davidson Experience.

—HARLEY-DAVIDSON, INC.<sup>1</sup>

Harley-Davidson, Inc. was far from being the world's biggest motorcycle manufacturer. In 2017, it sold 241,498 bikes; Honda sold 11.2 million. In relation to the world market for motorcycles of about 132 million bikes—of which Asia accounted for over 80%—Harley's market share was about 0.25%.

Yet, Harley-Davidson was also one of the world's most famous motorcycle companies. On Interbrand's ranking of the world's most valuable brands, it placed #77 in 2017 with a brand value of \$5.7 billion. In 2018, the company would celebrate its 115<sup>th</sup> birthday. On Labor Day weekend, tens of thousands of Harley riders would descend on Milwaukee WI for five days of festivities. As one enthusiast explained: "It ain't a motorcycle—It's a way of life!"

Harley-Davidson was also the world's most financially successful motorcycle company. Since its listing on the NYSE in 1986, its revenues had grown 11-fold, it had earned an average return on equity of 27%, and average annual return to shareholders was 12.8%.

However, since 2008, Harley had experienced headwinds. The financial crisis of 2008–09 had hit it hard and, despite a strong recovery, sales revenues and profits had declined after 2014. The decline in sales continued in 2018—exacerbated by the trade war initiated by the Trump administration. The European Union had targeted Harley-Davidson with 25% additional tariff on imports of US-made motorcycles. However, CEO Matt Levatich's biggest concern was the longer term outlook for the market for its bikes. Was America's long-running love affair with Harley-Davidson's heavyweight motorcycles cooling? And, if it was, would international markets take up the slack? These concerns were fueled by demographic trends. Harley's core market was the baby-boomer generation—and this cohort was moving toward retirement homes rather than outdoor sports. Would the next cohorts—Generation X, Y, and the millennials—have the same affinity for the motorcycles and the cultural values that Harley-Davidson represented? The evidence pointed to worrying problems for the entire US motorcycle market. Among the youngest age group—the under-18s—motorcycle ownership was declining sharply.

## The History of Harley-Davidson

### From Birth to Maturity, 1903–81

Harley-Davidson, Inc. was founded in 1903 by William Harley and the three Davidson brothers: William, Arthur, and Walter. In 1909, Harley introduced its two-cylinder, V-twin engine with its deep, rumbling sound: this engine type would be the characteristic feature of Harley-Davidson motorcycles for the next 110 years. At that time, there were about 150 US motorcycle producers in the United States; by 1953, Harley-Davidson was the sole survivor.

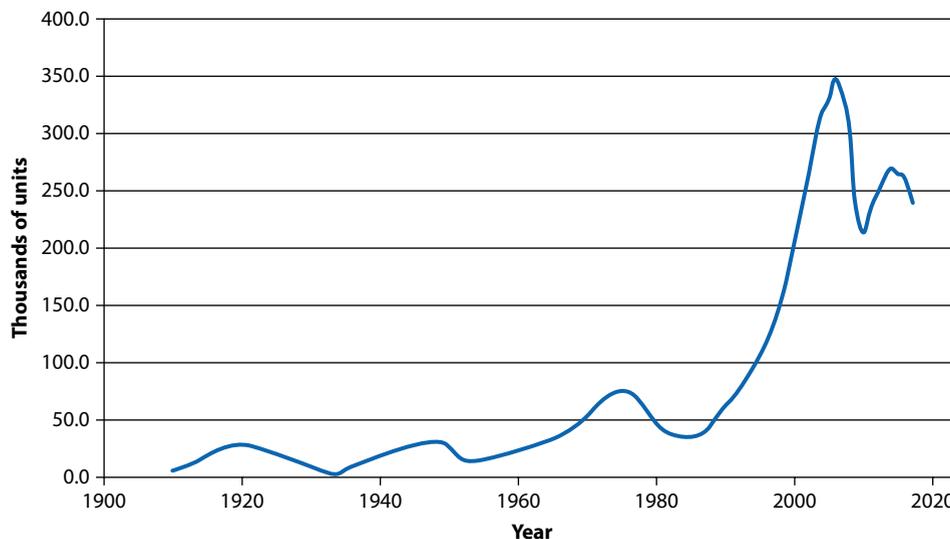
After the Second World War, the demand for motorcycles boomed. This encouraged a flood of imports: first the British (BSA, Triumph, and Norton) and then the Japanese (led by Honda). Following Harley's acquisition by the leisure conglomerate AMF in 1969, sales declined and financial losses mounted.

### Rebirth, 1981–2008

In 1981, Harley's senior managers led a leveraged buyout of the company. Despite a perilous financial condition, the management team embarked upon rebuilding production methods and working practices. Managers visited Japanese automobile plants and introduced their own version of Toyota's just-in-time (JIT) system called "MAN" (materials-as-needed). Harley's manufacturing plants adopted collaborative processes of quality management.

The 1986 initial public offering of Harley-Davidson's shares fueled investment in new models, plants, and dealerships. Harley's share of the market for heavyweight motorcycles (over 500cc) grew steadily. Harley's biggest challenge was satisfying the surging demand for its products. Between 1996 and 2003, it dramatically increased its production capacity. In 2006, Harley's sales reached a peak of 362,000 motorcycles, a 10-fold increase on 1986. Figure 1 shows Harley's growth in output.

**FIGURE 1** Annual shipments of motorcycles by Harley-Davidson



**Source:** Harley Davidson annual reports and Harley-Davidson archives.

## Downturn and Readjustment, 2008–14

The financial crisis of 2008 put an abrupt end to growth. After decades of customer waiting lists and a shortage of production capacity, Harley faced plummeting sales, excess inventory, and bad debts as customers defaulted on their loan repayments. In the shrinking motorcycle markets of North America and Europe, Harley—with the highest average retail price of any major manufacturer—suffered disproportionately. The credit crunch prevented Harley-Davidson Financial Services (HDFS) from securitizing its customer loans—it was obliged to retain them on its own books.

When Keith Wandell took over as Harley’s CEO in May 2009, his priorities were to restore funding for Harley’s consumer lending, align production and employment with lower demand, and refocus on the core Harley-Davidson brand—which involved closing Buell Motorcycles and selling Italian subsidiary MV Agusta.<sup>2</sup> With its financial position stabilized, Wandell then sought to return Harley to its previous growth path. This involved:

- Restructuring manufacturing operations including reducing capacity and increasing flexibility to allow a wider range of models to be produced and to match production to seasonal fluctuations in demand.
- Expanding international sales—especially in the emerging markets of Asia and Latin America. In 2011, Harley opened an Asia-Pacific regional headquarters in Singapore, and an assembly plant in India.<sup>3</sup>
- Expanding the customer base. To reestablish growth in North America, Harley needed to broaden its customer base from its core demographic of white males of 45 years or more. Targeted groups included: women riders, “Harlistas” (Latino riders), “Iron Elite” (African-American riders), “Harley’s Heroes” (military and veteran riders), and, most of all, younger riders through new models. During 2013, Harley launched its “Project Rushmore” motorcycles: a restyled range of touring motorcycles. They were followed by its “Street” models—lighter, sports motorcycles featuring new, liquid-cooled 500cc and 750cc engines.

## Matt Levatich and Harley’s Ten-Year Strategy

In May 2015, when Matt Levatich succeeded Keith Wandell as CEO, Harley was facing declining revenues as it faced a shrinking US motorcycle market, intensifying international competition, and a rising US dollar. Of particular concern was a decline in motorcycle ownership among younger Americans. To address these challenges, in February 2017, Levatich and his team announced a 10-year development strategy for the company. The key theme of the strategy was “Building the Next Generation of Harley-Davidson Riders Globally.” Table 1 summarizes the key components of the strategy.

### The Heavyweight Motorcycle Market

Until the financial crisis of 2008–09, the heavyweight segment had been the most rapidly growing part of the world motorcycle market: sales trebled between 1990 and 2008. However, during 2008–10, sales dropped sharply in North America and Europe. Despite a subsequent recovery, the US market continued to contract during 2015–17.

In North America, Harley was the leader in heavyweight bikes, with over half the market (Table 2). Overseas, Harley had been unable to replicate this market dominance, despite strong sales in a few markets: it was heavyweight market leader in Japan, Australia, and Brazil. In Europe, Harley’s market share lagged those of Honda, BMW, Suzuki, and Triumph.

**TABLE 1** Harley-Davidson's 10-year strategy, 2017–27

| 10-Year objectives  | Actions   |
|---|---|
| Build 2 million new HD <sup>a</sup> riders in the United States                     | To convert “customer opportunities” into HD customers, HD would use its dealer network to provide more instruction in m-c <sup>b</sup> riding, expand m-c rental, assure quality of local events, and expand HD presence in used m-c market.                |
| Grow international business to 50% of annual volume                                 | Add 150–200 dealer points between 2016 and 2020. Increase brand awareness and loyalty through test rides and dealer events, including “Battle of the Kings” dealer customization competition.   |
| Launch 100 new high-impact H-D motorcycles  | Annual expenditure on product development to be doubled. New models intended to expand HD's customer base while building on HD's “Key Differentiators”: Look, Sound, Feel, Personalization, and Connected Riding Experience.                                |
| Deliver superior return on invested capital for HDMC <sup>c</sup> (S&P 500 top 25%) | HD's initiatives to grow demand and increase the appeal of HD m-cs would help revenue growth while improvements in operational efficiency would support margins. HD Financial Services would become increasingly important source of competitive advantage. |
| Grow our business without growing our environmental impact                          | Sustainability initiatives related mainly to waste reduction and improvements in fuel economy. The launch of an all-electric m-c announced January 2018.  |

**Notes:**<sup>a</sup>HD = Harley-Davidson;<sup>b</sup>m-c = motorcycle;<sup>c</sup>HDMC = Harley-Davidson Motor Company, the main subsidiary of Harley-Davidson, Inc.**Source:** Harley-Davidson, Inc. Investor Meeting, February 28, 2017.**TABLE 2** Retail sales (registrations) of heavyweight motorcycles (601+cc), 2008–17 (thousands of units)

|                                  | 2008 | 2009 | 2010 | 2011            | 2012            | 2013            | 2014            | 2015 | 2016 | 2017 |
|----------------------------------|------|------|------|-----------------|-----------------|-----------------|-----------------|------|------|------|
| <b>United States<sup>a</sup></b> |      |      |      |                 |                 |                 |                 |      |      |      |
| Total market                     | 477  | 304  | 260  | 271             | 299             | 306             | 316             | 328  | 311  | 289  |
| Harley-Davidson                  | 235  | 174  | 154  | 152             | 161             | 168             | 167             | 165  | 160  | 147  |
| Market share (%)                 | 49.3 | 53.2 | 54.9 | 55.7            | 53.8            | 54.9            | 52.8            | 50.2 | 51.2 | 50.7 |
| <b>Europe</b>                    |      |      |      |                 |                 |                 |                 |      |      |      |
| Total market                     | 384  | 314  | 301  | 293             | 300             | 282             | 320             | 352  | 392  | 391  |
| Harley-Davidson <sup>b</sup>     | 45   | 40   | 41   | 44              | 36              | 36              | 39              | 37   | 42   | 38   |
| Market share (%)                 | 11.7 | 12   | 12.7 | 13.7            | 12.1            | 12.8            | 12              | 10.5 | 10.8 | 9.8  |
| <b>Asia-Pacific</b>              |      |      |      |                 |                 |                 |                 |      |      |      |
| Harley-Davidson                  | 25   | 23   | 21   | 21 <sup>c</sup> | 25 <sup>c</sup> | 27 <sup>c</sup> | 30 <sup>c</sup> | 32   | 33   | 30   |
| <b>Latin America</b>             |      |      |      |                 |                 |                 |                 |      |      |      |
| Harley-Davidson                  | 8    | 6    | 6    | 7               | 9               | 11              | 12              | 11   | 10   | 9    |
| <b>Canada</b>                    |      |      |      |                 |                 |                 |                 |      |      |      |
| Harley-Davidson                  | n.a. | n.a. | n.a. | 10              | 11              | 11              | 10              | 10   | 10   | 10   |

**Notes:**<sup>a</sup>Includes Canada for 2008–10.<sup>b</sup>Includes Middle East and Africa a 2005–11.<sup>c</sup>In 2011–17, sales in Japan were between 9,500 and 11,000 each year.

n.a. = not available.

**Source:** Harley-Davidson 10-K reports.

The heavyweight motorcycle market comprised three segments:

- *Cruiser motorcycles*: These were “big, noisy, low riding, unapologetically macho cycles,”<sup>4</sup> typically with V-twin, large displacement engines and an upright riding position. Their design reflected the dominance of styling over either comfort or speed. For the urban males (and some females), the cruiser motorcycle, while a practical mode of transportation, was primarily a statement of style. The cruiser segment was dominated by Harley and most of its competitors in this segment had imitated the main features of the traditional Harley design.
- *Touring motorcycles*: These included cruisers especially equipped for longer-distance riding and bikes especially designed for comfort over long distances (including the Honda Goldwing and the bigger BMWs). These tourers featured luxuries such as audio systems, two-way intercoms, and heaters. While Harley was segment leader, Honda and BMW had engineered their motorcycles for greater smoothness and comfort over long distances through the use of multi-cylinder, shaft-drive engines and advanced suspension systems.
- *Performance motorcycles*: These were based on racing bikes, with high-technology, high-revving engines offering speed, acceleration, race-track styling, and minimal concessions to rider comfort. The segment was the most important in the European and Asia-Pacific markets, representing 62% and 65% of total heavyweight bike sales, respectively. It was dominated by Japanese motorcycle companies, with a strong representation of European specialists, such as Ducati and Triumph. Harley had competed in this segment during 1993–2010 through Buell Motorcycles.

Unlike its Japanese competitors, Harley was highly market focused: its Harley’s models were concentrated on the “super-heavyweight” segment (over 850cc) and within this on cruiser and touring motorcycles.

## Harley-Davidson in 2018

### The Brand

Harley-Davidson’s image and the loyalty the company engendered among its customers were seen as its greatest assets. The 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. Harley has been described as “the ultimate biker status symbol . . . a quasi religion, an institution, a way of life.”<sup>5</sup> Harley had a unique relationship with American culture. The values that Harley represented—individuality, freedom, and adventure—could be traced back to the cowboy and frontiersman of yesteryear, and before that to the quest that brought people to America in the first place. As the sole surviving indigenous motorcycle company, Harley-Davidson represented a once-great tradition of American engineering and manufacturing.

The Harley brand was central not just to the company’s marketing but also to its strategy as a whole. The central thrust of the strategy was reinforcing and extending the relationship between the company and its consumers. Harley-Davidson had long

recognized that it was not selling motorcycles: it was selling the Harley Experience, which formed the central theme in almost all its external communications:

A chill sweeps through your body, created by a spontaneous outburst of pure, unadulterated joy. You are surrounded by people from all walks of life and every corner of the globe. They are complete strangers, but you know them like your own family. They were drawn to this place by the same passion—the same dream. And they came here on the same machine. This is one place you can truly be yourself. Because you don't just fit in. You belong.<sup>6</sup>

## Customers and Customer Relations

If the appeal of the Harley motorcycle was the image it conveyed and the lifestyle it represented, the company's challenge was to ensure that the experience matched the image. Harley's involvement in its consumers' riding experience was through the Harley Owners' Group (HOG), which organized social and charity events. Employees, from the CEO down, were encouraged to take an active role in attending HOG shows, rallies, and rides. "The feeling of being out there on a Harley-Davidson motorcycle links us like no other experience can. It's made HOG like no other organization in the world . . . more family reunion than organized meeting."<sup>7</sup> Customer loyalty led to their continuing reinvesting in Harley products: Harley-branded accessories and apparel, customizing their bikes, and eventually trading them in for a new (typically more expensive) model. About half of bike sales were to repeat customers.

Financial success involved Harley's repositioning from blue-collar youngsters to middle-aged and upper-income buyers, many of whom had never ridden a motorcycle before. Harley's core demographic was Caucasian males aged 35 and over. The average age of Harley's customers was about 50.

Harley's core customer base was narrow and it was aging, hence the priority given to widening the brands appeal. In his final letter to shareholders, retiring CEO Keith Wandell reported success in expanding Harley's customer base. Between 2012 and 2014, Harley had grown its sales to "outreach customers": young adults, women, African Americans, and Hispanics. In addition, its international sales had grown to 36% of total retail sales.<sup>8</sup>

## The Products

Broadening Harley's market appeal had major implications for product policy and design. Ever since its disastrous foray into small bikes during the AMF years, Harley had recognized that its competitive advantage lay with super-heavyweight bikes. Here it stuck resolutely to the classic styling that had characterized Harleys since the company's early years. At the heart of the Harley motorcycle was the air-cooled V-twin engine that had been Harley's distinctive feature since 1909. Harley's frames, handlebars, fuel tanks, and seats also reflected traditional designs.

Harley's commitment to traditional design features may be seen as making a virtue out of necessity. Its smaller corporate size and inability to share R & D across cars and bikes (unlike Honda and BMW) limited its ability to invest in technology and new products. As a result, Harley lagged far behind its competitors in the development and application of automotive technologies: not only did its motorcycles look old-style, much of their technology was old-style. Among the 238 US patents awarded to Harley during 2000–2016, a large proportion related to the design of peripheral items: saddlebag

mounting systems, footpegs, seats, backrests, electrical assemblies, and motorcycle music systems. Over the same period Honda was awarded 12,228 US patents, Kawasaki 2146, and Suzuki 740.

Long after other manufacturers had moved to multiple valves per cylinder, overhead camshafts, liquid cooling, and electronic ignition, most Harley bikes featured air-cooled push-rod engines with two valves per cylinder. Hence, the launch of the Milwaukee Eight engine in 2016 was a major event for Harley. Throughout Harley's entire history there had been just nine engines powering its heavyweight V-twins. The Milwaukee Eight's predecessor was the Twin-Cam introduced in 1999.

Nevertheless, Harley was engaged in constant upgrading—principally incremental refinements to its engines, frames, and gearboxes—aimed at improving power delivery and reliability, increasing braking power, and reducing vibration. Harley's automotive technology alliance partners included Porsche, Ford, and Gemini Racing.

Harley's new product development was driven by design rather than by technology. By 2018, Harley offered 47 different models. Its Product Development Center and Prototyping Lab were among the most important units within the company. Most of Harley's product development efforts were limited to style changes, new paint designs, and engineering improvements. However, after 2000, Harley accelerated technological development. Milestones included the liquid-cooled engines, fuel injection, electronic ignition, a six-speed gearbox, and electric propulsion.

At the heart of the Levatic's "Ten Year Strategy" for "Building the Next Generation of Harley-Davidson Riders Globally" was a new range of motorcycles that were radically different from Harley's traditional designs. The Street 500cc and 750cc models, introduced in 2015, were the first of series of lighter-weight, more technologically-advanced motorcycles. In 2019 they would be joined by the LiveWire, Harley's first all-electric motorcycle. Additional electric models will follow. Harley will also introduce the Pan-American—an adventure bike designed for on and off-road use.

Central to Harley's product strategy was the belief that every Harley rider should own a unique, personalized motorcycle—hence the offer of a wide range of presale and postsale customization opportunities. New bikes offered multiple options for seats, bars, pegs, controls, and paint jobs, with over 7000 accessories, and special services such as "Chrome Consulting."

Reconciling product differentiation with scale economies was a continuing challenge for Harley. The solution was to offer a wide range of customization options while standardizing key components. Thus, Harley's broad model range involved "permutations of four": four engine types, four basic frames, four styles of gas tank, and so on.

The Harley product line also covered a wide price range. The Street 500 model was priced as an entry-level bike, beginning at \$6799, less than one-fifth of the price of the CVO Limited, at \$39,349. Table 3 shows Harley's motorcycle output by product type.

## Distribution

Upgrading Harley's distribution network was central to its resurgence during the 1980s and 1990s. At the time of the buyout, many of Harley's 620 US dealerships were operated by enthusiasts, with erratic opening hours, a poor stock of bikes and spares, and indifferent customer service. If Harley was in the business of selling a lifestyle and an experience, then dealers played a pivotal role in delivering that experience. Moreover, if Harley's target market had shifted toward mature, upper-income individuals, Harley needed to provide a retail experience commensurate with the expectations of this group.

Harley's dealer development program provided increased support for dealers, while imposing higher standards of pre- and after-sales service and requiring improved

**TABLE 3** Harley-Davidson shipments of motorcycles, 2006–17

|  | 2006  | 2007  | 2008  | 2009  | 2010  | 2011  | 2012  | 2013  | 2014  | 2015  | 2016  | 2017  |
|--|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| <b>Unit shipments</b> (thousands of motorcycles) |       |       |       |       |       |       |       |       |       |       |       |       |
| United States                                    | 273.2 | 241.5 | 206.3 | 144.4 | 131.6 | 152.2 | 160.5 | 167   | 174   | 170   | 161.8 | 144.8 |
| International                                    | 76.0  | 89.1  | 97.2  | 78.5  | 78.8  | 80.9  | 87.1  | 93.4  | 96.7  | 95.6  | 100.3 | 96.6  |
| Buell  | 12.5  | 11.5  | 13.1  | 9.5   | 2.6   | 0.2   | —     | —     | —     | —     | —     | —     |
| Company total                                    | 361.6 | 342.1 | 316.4 | 232.4 | 213   | 233.2 | 247.6 | 260.5 | 270.7 | 266.3 | 262.2 | 241.7 |
| <b>Product mix (%)</b>                           |       |       |       |       |       |       |       |       |       |       |       |       |
| Sportster and Street                             | 18.5  | 21.8  | 20    | 21.4  | 19.5  | 21.3  | 20.5  | 19.3  | 21.0  | 23.4  | 23.4  | 22.5  |
| Cruiser  | 46.2  | 43.7  | 46.4  | 40.9  | 41.4  | 39.2  | 39.1  | 39.5  | 33.8  | 33.5  | 35.6  | 36.2  |
| Touring  | 35.4  | 34.5  | 33.6  | 37.7  | 39.0  | 39.5  | 40.4  | 41.2  | 45.2  | 43.1  | 41.0  | 41.3  |

**Source:** Harley-Davidson 10-K reports.

**TABLE 4** Harley-Davidson's dealership network, 2008–17

|      | US  | Canada | EMEA | Asia-Pacific | Latin America |
|------|-----|--------|------|--------------|---------------|
| 2008 | 686 | 71     | 383  | 201          | 32            |
| 2014 | 669 | 69     | 369  | 273          | 55            |
| 2017 | 698 | 68     | 398  | 276          | 58            |

**Source:** Harley Davidson 10-K reports.

facilities. Dealers were obliged to carry a full line of Harley products and accessories and to offer services that extended beyond service, repair and financing to include test ride facilities, rider instruction classes, motorcycle rental, consulting for customization, insurance services, and vacation packages. Over 90% of Harley dealerships in the United States were exclusive: most other motorcycle manufacturers sold through multi-brand dealerships.

Dealer services were a continuing strategic priority for Harley. Its Retail Environments Group established a meticulous set of performance standards and guidelines for dealers that covered every aspect of managing the showroom and interacting with actual and potential customers. Harley-Davidson University was established to “enhance dealer competencies in every area, from customer satisfaction to inventory management, service proficiency, and front-line sales.”<sup>9</sup>

Expanding international sales required Harley to extend its dealer network into countries where it had little or no distribution presence. Yet, as Table 4 shows, Harley's dealership network outside of North America was still sparse even in 2018.

## Other Products and Services

Sales of parts, accessories, “general merchandise” (clothing and collectibles), and financial services represented 32% of Harley's total revenue in 2017 (Table 5)—much higher than for other motorcycle companies. Clothing sales included not just traditional riding apparel but also a wide range of men's, women's, and children's leisure apparel.

**TABLE 5** Harley-Davidson's nonmotorcycle sales, 2005–14 (\$million)

|                       | 2008  | 2009  | 2010  | 2011  | 2012  | 2013  | 2014  | 2015  | 2016  | 2017  |
|-----------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Parts and accessories | 858.7 | 767.2 | 749.2 | 816.5 | 836.7 | 873.1 | 875   | 862.6 | 842.6 | 804.3 |
| General merchandise   | 313.8 | 282.2 | 259.1 | 274.1 | 282.5 | 295.9 | 284.8 | 292.3 | 284.5 | 262.7 |
| Financial services    | 377.0 | 494.7 | 682.7 | 649.4 | 650.1 | 641.6 | 660.8 | 686.6 | 725.0 | 732.1 |

**Source:** Harley Davidson 10-K reports.

The “general merchandising” business included licensing of the Harley-Davidson name and trademarks to third-party manufacturers of clothing, giftware, jewelry, toys, and other products. Licensing revenues were \$35.5 million in 2017, down from \$46.5 million in 2015. To expand sales of licensed products, Harley opened “nontraditional” dealerships: retail outlets selling clothing, accessories, and giftware but not motorcycles.

## Manufacturing

Since the 1981 buyout, Harley-Davidson had been upgrading its manufacturing operations through new plant and equipment, automation, enterprise resource planning, total quality management, JIT scheduling, CAD/CAM, and participative decision-making.

Despite the constant development of its manufacturing facilities and operational capabilities, Harley's low production volume relative to Honda and the other Japanese manufacturers imposed significant cost disadvantages, especially in the purchase of components.

Harley's capacity for efficiency was also limited by its dispersed manufacturing operations: engine manufacture in Milwaukee, Wisconsin and assembly in York, Pennsylvania, and Kansas City, Missouri. During 2009–14, Harley reorganized its manufacturing operations, combining the two Milwaukee-area powertrain plants into a single facility and merging the separate paint and frame operations at York, Pennsylvania. Job losses and the introduction of more flexible employment arrangements and working practices created frictions with Harley's labor unions.

## Competition

Despite Harley's insistence that it was supplying a unique Harley experience, its success inevitably attracted competitors. The clearest indication of direct competition was imitation: Honda, Suzuki, Yamaha, and Kawasaki had long been offering V-twin cruisers styled closely along the lines of the classic Harleys, but at lower prices and with more advanced technologies (Table 6). In competing against Harley, the Japanese manufacturers' key advantage was the scale economies that derived from vastly greater volume. However, despite their price premium, Harley-Davidson motorcycles benefitted from a lower rate of depreciation than other brands.

Almost all of Harley's competitors were, compared to Harley, highly diversified. Honda, BMW, and Suzuki were important producers of automobiles, and more than

**TABLE 6** Recommended retail prices for V-twin, cruiser motorcycles, 2018

| Model                  | Specifications                                 | Price (\$) |
|------------------------|--|------------|
| <b>Harley-Davidson</b> |  |            |
| Street 750             | Liquid-cooled, OHC, 8-valve, 750cc engine      | 7599*      |
| Sportster Superlow     | Air-cooled, 4-valve, 883cc engine              | 8699*      |
| Softail Slim           | Air/liquid cooled, 8-valve 1746 cc engine      | 15,899     |
| Fat Boy                | Air/liquid cooled, 8-valve 1746 cc engine      | 17,699     |
| <b>Honda</b>           |  |            |
| Shadow Phantom         | Liquid-cooled, 6-valve, OHC, 745cc             | 7799       |
| Fury                   | Liquid-cooled, 6-valve, OHC, 1312cc            | 10,449     |
| <b>Suzuki</b>          |  |            |
| Boulevard M50          | Liquid-cooled, OHC, 805cc                      | 8649       |
| Boulevard C90T         | Liquid-cooled, OHC, 1462cc                     | 12,949     |
| <b>Kawasaki</b>        |  |            |
| Vulcan 900 Classic     | Liquid-cooled, 8-valve, OHC, 903cc, belt drive | 7999       |
| Vulcan 900 Custom      | Liquid-cooled, 8-valve, OHC, 903cc, belt drive | 8499       |
| <b>Yamaha</b>          |  |            |
| Bolt                   | V-twin, OHC, 4-valve, air-cooled, 942cc        | 7999       |
| Stryker                | OHC, 8-valve, liquid-cooled, 1304cc            | 11,899     |
| <b>Polaris</b>         |  |            |
| Victory Octane         | 4-valve, OHC, liquid cooled, 1200cc            | 9999       |
| Victory Vegas 8-Ball   | 8-valve, air-cooled, 1731cc                    | 12,999     |
| Indian Scout Sixty     | Liquid cooled, 655ccs                          | 8999       |
| Indian Chief           | Liquid cooled, 1644ccs                         | 18,499     |

**Note:**

\*Price is for the base model which is black, other colors extra.

one-third of Yamaha's turnover came from boats and snowmobiles. These companies could share technologies, engineering capabilities, distribution, and brand awareness across their different vehicle divisions. Moreover, sheer size conferred purchasing power.

Imitators of Harley's retro-styled, V-twin cruisers were not only the Japanese motorcycle companies but also domestic competitors—notably Polaris which produced Victory and Indian motorcycles.

Appendix Table A2 compares the financial performance of leading motorcycle companies.

## The Future

During the first half of 2018, Harley's revenues, net income, and margins continued to decline. Its problems were principally in the US where sale volume was 8.7% lower than the first half of 2017; international sales volume grew by 0.5%.<sup>10</sup> Overseas, Harley sought to expand sales through adding new dealerships and building an assembly plant in Thailand. At home, Harley continued its quest to broaden its rider base. Among its new models, the most radical was the electric motorcycle, to be introduced in the latter part of 2019. Moreover, Harley planned to "increase its investment in electric motorcycle technology, products and infrastructure in 2018 and beyond. . . [which] will help accelerate the development of this market and assure its leadership in electric motorcycles."<sup>11</sup> In March 2018, it invested in Alta Motors, a California-based developer of electric vehicles.<sup>12</sup>

In the face of challenging market conditions, Harley announced the closure of its Kansas City plant. Production would be transferred to the York, PA plant, and the company would incur a \$54 million restructuring charge. However, Harley remained committed to its strategy to "build the next generation of Harley-Davidson riders globally." On July 30, 2018, Harley announced accelerated measures to develop new models, broaden market reach with "a multichannel retail experience," and strengthen its dealer network.

Exploiting the potential offered by emerging markets was particularly challenging. A major dilemma for Harley was the extent to which it should seek to replicate the same brand image and the same Harley Experience that had been so successful in the United States, or whether it should adapt to the physical and cultural differences of each national market?

A Milwaukee blogger summarized Harley's dilemma:

So what does Harley do? One tack would be to stay focused on what it does best: big bikes. While that strategy may make sense on some fronts (focus on what you know, stay loyal to the brand identity, etc.), that approach will mean greatly reduced growth prospects and could doom it if the current consumer spending environment holds out long term. And meanwhile its core audience just gets older.

Or it could do what people have been saying what it should do for years: Make smaller, more affordable bikes. That's harder than it sounds, as it would force Harley to compete against the Japanese manufacturers on their own turf. But if the market is moving away from Harley, does it have a choice?<sup>13</sup>

As for Harley's venture into electric motorcycles, this too attracted skepticism: "Investment in the tech will be funded by a dying business, and they are basically starting from scratch. Either they shrink to demand and be what they've always been or they sell out and pursue some weird future-mobility business model that doesn't promise anything—even if they were capable of pulling it off."<sup>14</sup> Bloomberg Businessweek summed up HD's dilemma as follows: "It's searching for a middle ground, one that will let it reach into the future without letting go of the past. If there is such a path, it must be pretty narrow."<sup>15</sup>