

## Harley-Davidson: Style and Strategy Have Global Reach

*Harley-Davidson celebrated a century in business with a year-long International Road Tour. The party culminated in the company's hometown, Milwaukee.<sup>1</sup> Harley is a true American success story. Once near death in the face of global competition, Harley reestablished itself as the dominant maker of big bikes in the United States. However, success breeds imitation, and Harley once again faces a mixture of domestic and foreign competitors encroaching on its market. Can it meet the challenge?*

### Harley-Davidson's Roots

When Harley-Davidson was founded in 1903, it was one of more than 100 firms producing motorcycles in the United States. The U.S. government became an important customer for the company's high-powered, reliable bikes, using them in both world wars. By the

1950s, Harley-Davidson was the only remaining American manufacturer.<sup>2</sup> But by then British competitors were entering the market with faster, lighter-weight bikes. And Honda Motor Company of Japan began marketing lightweight bikes in the United States, moving into middleweight vehicles in the 1960s. Harley initially tried to compete by manufacturing smaller bikes, but had difficulty making them profitably. The company even purchased an Italian motorcycle firm, Aermacchi, but many of its dealers were reluctant to sell the small Aermacchi Harleys.<sup>3</sup>

### Consolidation and Renewal

American Machine and Foundry Co. (AMF) took over Harley in 1969, expanding its portfolio of recreational products. AMF increased production from 14,000 to 50,000

bikes per year. This rapid expansion led to significant problems with quality, and better-built Japanese motorcycles began to take over the market. Harley's share of its major U.S. market—heavyweight motorcycles—was only 23%.<sup>4</sup> A group of 13 managers bought Harley-Davidson back from AMF in 1981 and began to turn the company around with the rallying cry “The Eagle Soars Alone.” As Richard Teerlink, former CEO of Harley, explained, “The solution was to get back to detail. The key was to know the business, know the customer, and pay attention to detail.”<sup>5</sup> The key elements in this process were increasing quality and improving service to customers and dealers. Management kept the classic Harley style and focused on the company's traditional strength—heavyweight and super heavyweight bikes.

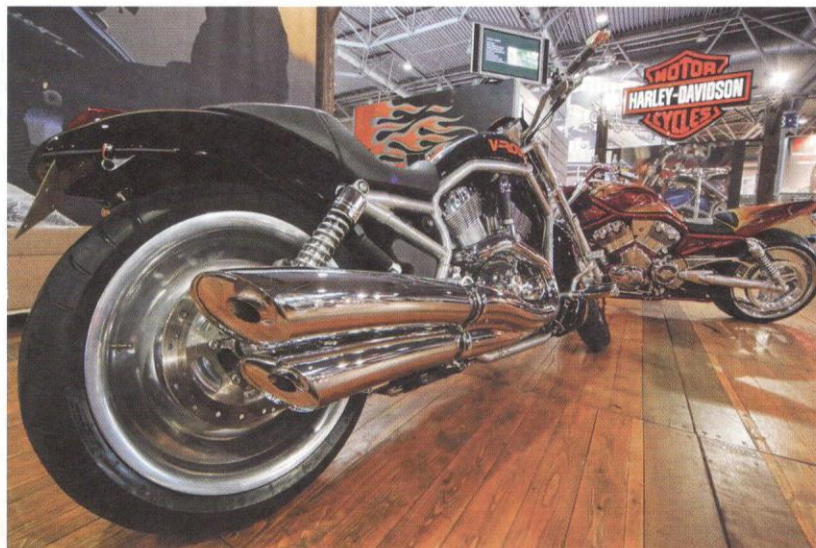
In 1983, the Harley Owners Group (H.O.G.) was formed; H.O.G. membership now exceeds one million members and 1,400 chapters worldwide.<sup>6,7</sup> Also in 1983, Harley-Davidson asked the International Trade Commission (ITC) for tariff relief on the basis that Japanese manufacturers were stockpiling inventory in the United States and providing unfair competition. The request was granted and a tariff relief for five years was placed on all imported Japanese motorcycles that were 700cc or larger. By 1987 Harley was confident enough to petition the ITC to have the tariff lifted because the company had improved its ability to compete with foreign imports.

Once Harley's image had been restored, the company began to increase production.<sup>8</sup> The firm opened new facilities in Franklin, Milwaukee, and Menomonee Falls, Wisconsin; Kansas City, Missouri; York, Pennsylvania; and opened a new assembly plant in Manaus, Brazil.<sup>9</sup>

In the 1980s, the average Harley purchaser was in his late thirties, with an average household income of over \$40,000. Teerlink didn't like the description of his customers as “aging” baby boomers: “Our customers want the sense of adventure that they get on our bikes.... Harley-Davidson doesn't sell transportation, we sell transformation. We sell excitement, a way of life.”<sup>10</sup> However, the average age and income of Harley riders has continued to increase. Recently, the median age of a Harley rider was 47, and the median income exceeded \$80,000.<sup>11</sup> The company also created a line of Harley accessories available through dealers or by catalog, all adorned with the Harley-Davidson logo. These jackets, caps, T-shirts, and other items became popular with nonbikers as well. In fact, the clothing and parts had a higher profit margin than the motorcycles; nonbike products made up as much as half of sales at some dealers.

### International Efforts

Although the company had been exporting motorcycles ever since it was founded, it was not until the late 1980s that Harley-Davidson management began to think seri-



©AP/Wide World Photos

ously about international markets. Traditionally, the company's ads had been translated word for word into foreign languages. New ads were developed specifically for different markets, and rallies were adapted to fit local customs.<sup>12</sup> The company also began to actively recruit and develop dealers in Europe and Japan. It purchased a Japanese distribution company and built a large parts warehouse in Germany. And, Harley learned from its international activities. Recognizing, for example, that German motorcyclists rode at high speeds—often more than 100 mph—the company began studying ways to give Harleys a smoother ride and emphasizing accessories that would give riders more protection.<sup>13</sup>

Harley continues to make inroads in overseas markets. At one time, Harley had 30% of the worldwide market for heavyweight motorcycles—chrome-laden cruisers, aerodynamic rocket bikes mostly produced by the Japanese, and oversize touring motorcycles. In the United States, Harley had the largest market share, 46.4%, followed by Honda with 20.2%. In Europe, Harley ranked sixth, with only 6.6% of the market share behind Honda, Yamaha, BMW, Suzuki, and Kawasaki. However, in the Asia/Pacific market, where one would expect Japanese bikes to dominate, Harley had the largest market shares in the early part of the decade. Harley had 21.3% of the market share, compared to 19.2% for Honda.<sup>14</sup>

Harley motorcycles are among America's fastest-growing exports to Japan. Harley's Japanese subsidiary adapted the company's marketing approach to Japanese tastes, even producing shinier and more complete tool kits than those available in the United States. Harley bikes have long been considered symbols of prestige in Japan; many Japanese enthusiasts see themselves as rebels on wheels.<sup>15</sup>

The company has also made inroads into the previously elusive Chinese market, with the first official Chinese Harley-Davidson dealer opening its doors just outside downtown Beijing. To break into this emerging market, Harley partnered with China's Zongshen Motorcycle Group, which makes more than one million small-engine motorcycles each year.<sup>16</sup> Like other

Harley stores, the Chinese outlet stocks bikes, parts and accessories, and branded merchandise, and offers post-sales service. Despite China's growing disposable income, the new store has several hurdles ahead of it, including riding restrictions imposed by the government in urban areas.

### The Future

Although its international sales have grown, the domestic market still represents almost 75% of Harley's sales.<sup>17,18</sup> Given the climbing price of gas, Harley is uniquely positioned to take advantage of this sour economic factor. Many riders report in-town fuel consumption rates in excess of 40 miles per gallon.<sup>19</sup> Analyst Todd Sullivan notes, "I know plenty of F150, Suburban, and Silverado drivers who ride Harleys. They are doubling or even tripling their gas mileage and savings by making the switch."<sup>20</sup> With 17 consecutive years of increased production, as well as record revenues and earnings, the future for Harley appears bright.<sup>21</sup>

### DISCUSSION QUESTIONS:

1. If you were CEO of Harley-Davidson, how would you compare the advantages and disadvantages of using exports, joint ventures, and wholly-owned subsidiaries as ways of expanding international sales?
2. Given Harley's legacy of quality and craftsmanship, what complications might the Chinese business environment pose for the firm to manufacture there?
3. Harley's positioning, at least in America and Japan, has shifted from providing a product (motorcycles) toward more of providing a service (way of life). How does this positioning affect its potential to succeed in Asia, Africa, and South America?
4. **FURTHER RESEARCH**—Is it accurate to say that Harley is "still on top" of its game? How is the company doing today in both domestic and global markets? Who are its top competitors in other parts of the world, and how is Harley faring against them?