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HARLEY-DAVIDSON: INTERNATIONALIZATION IN the TRUMP ERA[[1]](#endnote-1)

[Bertrand Guillotin](https://iveypubs.my.salesforce.com/003A0000021eK8V) and [Seok-Woo Kwon](https://iveypubs.my.salesforce.com/003A000001Cqogd) wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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“We’re proud of you! Made in America: Harley-Davidson,” President Donald J. Trump praised the motorcycle company’s executives and union leaders on February 2, 2017. When he left the meeting at the White House that day, Matthew S. Levatich, the chief executive officer (CEO) of Harley-Davidson Inc. (Harley-Davidson), was impressed by the Trump administration.[[2]](#endnote-2) The meeting had occurred less than two weeks after Trump had released his America First foreign policy,[[3]](#endnote-3) which could help or hurt the struggling but iconic company that had become a symbol of American ideals and U.S. manufacturing know-how.

“The big opportunity for Harley-Davidson, growth-wise, is in Asia, and a lot of the work with the Trans-Pacific Partnership addresses some of the barriers that are in the way of our growth in Asia,” Levatich had said in a television appearance in April 2016.[[4]](#endnote-4) However, many things had changed since then, and in May 2017, Levatich had to ascertain whether to pursue that big Asian opportunity.

America First and Tweet-based Policy making

According to an official White House statement, the Trump administration, through the America First foreign policy, was

committed to a foreign policy focused on American interests and American national security. The President understands how critical it is to put American workers and businesses first when it comes to trade. With tough and fair agreements, international trade can be used to grow our economy, return millions of jobs to America’s shores, and revitalize our nation’s suffering communities. This strategy starts by withdrawing from the Trans-Pacific Partnership and making certain that any new trade deals are in the interests of American workers. President Trump is committed to renegotiating the North American Free Trade Agreement (NAFTA).[[5]](#endnote-5)

In the immediate aftermath of the 2016 U.S. presidential election, several multinational CEOs had fallen victim to damaging social-media posts (tweets) from the President of the United States’ @POTUS Twitter account that had cost their companies billions of dollars in lost market capitalization (i.e., the stock price multiplied by the number of outstanding shares). Other companies had needed to change their existing plans, which were seen as being inconsistent with America First. The Ford Motor Company (Ford), for example, had planned to build a new assembly plant in Mexico but cancelled this plan on January 3, 2017, and redirected the investment to Michigan in response to a tweet from @POTUS.[[6]](#endnote-6) This setback among others contributed to Mark Fields’s departure as CEO of Ford on May 22, 2017. Some experts claimed that he had “bungled Trump.”[[7]](#endnote-7) Other companies had similar experiences; for example, tweets from @POTUS erased, in a matter of hours, billions of dollars in market capitalization at both Toyota Motor Corporation and General Motors Company.[[8]](#endnote-8)

CEOs in other strategic industries, such as aerospace and defence contracting, also felt the wrath of @POTUS on Twitter. On December 6, 2016, minutes after the CEO of the Boeing Company (Boeing) had been “reported to have expressed doubt about Mr. Trump’s plans on international trade,”[[9]](#endnote-9) President-elect Trump wasted no time, tweeting, “Boeing is building a brand new 747 Air Force One for future presidents, but costs are out of control. Cancel order.” While several factors may have led to the decline of Boeing on that day, the damaging tweet erased $1 billion[[10]](#endnote-10) from Boeing’s stock market value and caused a spike in the volume of shares traded.[[11]](#endnote-11)

This pattern of “stock-price-moving tweets” was a factor for Boeing and also for Lockheed Martin Corporation (Lockheed Martin), which lost $1.2 billion in market value in the aftermath of yet another @POTUS tweet on December 22, 2016: “Based on the tremendous cost and cost overruns of the Lockheed Martin F-35, I have asked Boeing to price-out a comparable F-18 Super Hornet.”[[12]](#endnote-12)

Was this use of social media a new way for the White House to strategically influence the U.S. business community by circumventing the mainstream press and trained journalists? Was it forcing companies to align their business decisions with government policy, or even to display blind allegiance—a stance that had been optional in relation to previous administrations? In recent years, the White House had generally taken counsel from these CEOs and had taken a laissez-faire approach rather than actively interfering with business decisions. However, this laissez-faire approach was becoming far less typical in early 2017. One thing was certain: the new approach was adding to the uncertainties associated with policy making, and it was very potent. CEOs, who were often compensated based on their companies’ stock performance, and who seemed at odds with the current administration, saw their companies’ stock prices plunge in a matter of hours. The tensions between the White House and the U.S. business community were building to an unprecedented level.

In this new context of highly unpredictable and volatile domestic priorities, what should the CEO of a U.S. multinational do regarding international expansion?

Harley-Davidson, established in Milwaukee, Wisconsin, in 1903, had a long history. Levatich was fairly new to his role, having been elected president and CEO on May 1, 2015. He had to consider his options for reversing the trend of a year-long sales decline, generated mostly in the United States (see Exhibit 1), and a downward-trending stock price caused by the aging of the company’s main U.S. customers, who were “overwhelmingly white, male and middle-aged.”[[13]](#endnote-13)

However, as a well-trained business executive and a Harley-Davidson veteran since 1994, he probably realized that international trade, which was often associated incorrectly with the loss of U.S. jobs to other countries, had been targeted as the enemy. In the context of the America First policy, international expansion had clearly become politically incorrect.

On Inauguration Day, two weeks before Levatich’s meeting at the White House, the U.S. international trade policy environment had turned away from globalization and its main trading partners (China, Japan, Mexico, and European countries), raising concerns around the world. On January 23, 2017, making good on a campaign promise, Trump pulled the United States out of the Trans-Pacific Partnership (TPP), an agreement that had been aimed at boosting trade and reducing thousands of tariffs among 12 nations. U.S. participation in the TPP would have benefited Harley-Davidson and many other U.S.-based multinationals in several industries. The TPP had been signed by President Barack Obama on February 4, 2016, after five years of negotiations and the use of fast-track authority. Trump had promised to also renegotiate NAFTA, based on the assumption that these trade deals were not sufficiently beneficial to the United States. While many of his supporters were rejoicing, many CEOs and economists voiced concerns and distanced themselves from Trump. The tensions between the White House and the U.S. business community had reached a new height.

the Global Context and Harley-Davidson’s Internationalization

For Levatich and Harley-Davidson, the end of U.S. participation in the TPP negotiations was bad news. The TPP could have saved Harley-Davidson millions of dollars by reducing, if not eliminating, high tariff barriers in Malaysia, for example. According to the International Trade Centre, import tariffs on Harley-Davidson motorcycles were also high in Thailand, and they were 100 per cent (that is, they doubled the price) in India,[[14]](#endnote-14) where Harley-Davidson had built plants first in Gurgaon, in 2009,[[15]](#endnote-15) and then in Bawal,[[16]](#endnote-16) in an effort to avoid this type of prohibitive tax. The former chair of the asset management division of Goldman Sachs Group Inc., Jim O’Neill, had coined the term BRIC to describe the economies of Brazil, Russia, India, and China. Harley-Davidson’s major step into these promising and fast-growing emerging BRIC markets had been aimed at offsetting lacklustre U.S. sales following the 2008 global financial crisis. In fact, the company’s internationalization plans included several strategic options, ranging from direct exports to foreign direct investments such as building plants overseas or taking at least a 10 per cent capital stake in a foreign partner.

Almost a century earlier, Harley-Davidson had been the largest motorcycle maker in the world, distributing motorcycles in 67 countries through 2,000 dealers. However, the majority of its sales were on U.S. soil, and Harley-Davidson’s prosperity was dependent on the U.S. economy and its loyal customer base. During and after World War II, world markets became increasingly interconnected. To support this important evolution of the global economy, agreements were formed, such as the General Agreement on Tariffs and Trade, signed by 23 nations in 1947; and the World Trade Organization was created in 1995 and grew to include 164 member states in 2017.

In the 1960s and 1970s, Harley-Davidson had suffered greatly because of both poor product quality and international competition from Europe and Japan. Product quality became an issue especially after 1969, when the company’s motorcycles division was purchased by American Machine and Foundry Inc., a popular sports equipment manufacturer. The situation improved only after the Reagan administration imposed a 45 per cent tariff on imported motorcycles with engines of at least 700 cubic centimetres (cc)—a tariff that was in effect for four years, between 1983 and 1987.

In the 1990s, Harley-Davidson emerged from its dark period as a strong innovator and a globally competitive U.S. motorcycle manufacturer. Its innovations included fuel injection and drive belts (instead of greasy chains) featured on all models, and a V-Rod engine that was designed in collaboration with Porsche and featured liquid cooling. These innovations drove sales and earnings into high gear; the main focus of the management team was to increase production every year. Until 2001, with a booming U.S. economy and stock market, Harley-Davidson was still primarily focused on the U.S. market. However, managers had become complacent and over reliant on their domestic market. Their wake-up call came when the 2007 U.S. market decline was followed by the 2008 global financial crisis.

In 2011, Harley-Davidson motorcycles were made in the United States, assembled in India and Manaus, Brazil (since 1999), and distributed in 86 countries through 1,400 dealers, most of whom were located outside of the United States and away from the old riders—the so-called real bikers.

During the period from 2011 to 2015, exchange-rate trends made it easier for European companies to compete based on cheaper prices as they entered the U.S. market. The value of the euro decreased by more than 30 per cent during this period as the U.S. dollar strengthened, rising from $1.48 per euro on April 25, 2011, to $1.05, on March 9, 2015.[[17]](#endnote-17) This trend persisted, with an exchange rate of approximately $1.15 per euro in 2017. Additional challenges and headwinds were surfacing, and needed to be addressed by Harley-Davidson’s leader.

Harley-Davidson: An America Icon Facing SIGNIFICANT Headwinds

Leadership

Levatich became the CEO of Harley-Davidson on May 1, 2015. In more than 20 years at Harley-Davidson, the 53-year-old Levatich had experienced many changes. He had deep roots in manufacturing management and had honed his business skills on the job and through his formal education. His biographical statement on Harley-Davidson’s website[[18]](#endnote-18) described a well-rounded executive with direct exposure to international trade and the global economy:

Matt Levatich serves as President and Chief Executive Officer of Harley-Davidson, Inc. Levatich joined Harley-Davidson in 1994 and held positions of increasing responsibility in the U.S. and Europe, including President and Chief Operating Officer of Harley-Davidson Motor Company, Vice President and General Manager of the Motor Company’s Parts and Accessories business, Vice President of Materials Management, and President and Managing Director of MV Agusta.

Prior to joining Harley-Davidson, Levatich held positions in engineering and in manufacturing management with FMC Corporation and Albany International Corporation. He holds an undergraduate degree in mechanical engineering from Rensselaer Polytechnic Institute. He received his graduate degree in engineering management and MBA in marketing, finance and organizational behaviour from Northwestern University (Class of 1994). In addition to serving on the board of directors of Harley-Davidson, Inc., Levatich serves on the board of directors for Emerson, a global manufacturing and technology company based in St. Louis, and on the executive advisory board of Northwestern’s Master of Management and Manufacturing Program.

Based on his seasoned business background, Levatich knew that his performance would be measured according to Harley-Davidson’s stock price behaviour over time. His 6,400 employees worldwide and shareholders were watching his every move. He also knew that the Harley-Davidson brand typically appealed to customers who wanted to feel free and bold and who wanted to make a (loud) statement. These characteristics epitomized not only the American spirit and ideals but also deep human values that were shared by many around the world.[[19]](#endnote-19)

Stock Price Performance

On December 31, 2014, four months before Levatich became CEO, Harley-Davidson stock, a typical measure of a CEO’s performance, was trading at $60.35, adjusted for both dividends and splits.[[20]](#endnote-20) When Levatich celebrated his second anniversary as CEO on May 1, 2017, Harley-Davidson’s stock price was trading at $54.75.[[21]](#endnote-21) Over the same period, the S&P 500 index, the benchmark typically used to compare the performance of any publicly traded company with the overall market, had increased by 16 per cent, from $2,058.90 to $2,388.33.[[22]](#endnote-22)

During the first quarter of 2017, investors’ confidence had been boosted in “anticipation of a pro-growth policy [of] massive tax cuts, infrastructure spending and deregulation,” in a phenomenon known as the Trump rally, which was deemed to be the second-best investment rally since that following John F. Kennedy’s presidential election.[[23]](#endnote-23) However, the rally did not help reverse the downward trend of Harley-Davidson’s stock price.

Operational and Strategic Challenges

Since 2014, competition had intensified, sales and net income were decreasing,[[24]](#endnote-24) and customer needs were changing. As he took over as president and CEO, Levatich needed to do something quickly to address and possibly reverse these disturbing trends. But what could he do? What strategic option could he focus on in the complex and uncertain environment that he and his company were experiencing?

To get Harley-Davidson stock prices rising again, Levatich would need to think analytically and strategically and to consider the global business landscape—including strategic options such as adaptation, standardization, and execution on a global scale. He was familiar with his company’s outlook and long-term strategy (2017–2027),[[25]](#endnote-25) which had been articulated around five objectives: (1) build 2 million new Harley-Davidson riders in the United States; (2) grow Harley-Davidson’s international business to 50 per cent of its total annual volume; (3) launch 100 new, high-impact Harley-Davidson motorcycles; (4) deliver a superior return on invested capital for Harley-Davidson Motor Company; and (5) grow the business without growing its environmental impact.

Levatich would need to think through analytical frameworks—and very quickly. At the same time, he would need to carefully assess the implications of any international expansion plans. Could an announcement that Harley-Davidson was building a new plant overseas in an attempt to avoid high tariffs cost him his job? If a punishing @POTUS tweet were to be posted after such an announcement, could the company afford to lose billions in market value and some of its U.S. customers? Would Harley-Davidson’s union leaders revolt and call for a massive strike in the U.S. manufacturing facilities that supplied the overseas assembly plants?

In addition to being aware of the America First foreign policy, Levatich also knew that other government policies such as the anti-pollution program were costing his company millions of dollars per year. In 2016, Harley-Davidson had agreed “to pay a $12 million civil penalty for selling devices federal regulators say allowed riders to put too much pollution into the air.”[[26]](#endnote-26)

Competitors

International[[27]](#endnote-27)

International competition originating from Japan (Honda, Kawasaki, Suzuki, and Yamaha) and Europe (BMW and Ducati) had started to hurt Harley-Davidson in the 1960s, and these motorcycle makers were continuing to compete for riders. In March 2016, Mintel Group Ltd., a global market research company, surveyed 500 18-year-old motorcycle owners on the brand of motorcycle they would be most likely to purchase next. In key results, while Harley-Davidson was the top brand those surveyed would consider buying, the brand came second in a ranking based on current percentage of ownership (see Exhibit 2). The Mintel report noted:

Where Harley’s cache surrounds relatively expensive cruisers, the four Japanese manufacturers have built their reputations on smaller, reasonably priced models, including sports bikes and also off-road bikes. These brands also produce large cruisers, often at prices more competitive than those sold by Harley-Davidson. In a hypothetical match-up in which bikes were stripped of all identifying brand elements, and judged solely on their build and price, there is a reasonable likelihood that the share belonging to the four Japanese brands would be higher; BMW and Ducati bikes, along with those from Harley, tend to sell at a premium. Even as it stands, in Mintel’s survey, Honda already competes with Harley to be the most commonly owned motorcycle brand.

Domestic

Even with a 53.1 per cent share of the market for motorcycles with engines of at least 601 cc,[[28]](#endnote-28) Harley-Davidson was under increasing pressure in the form of significant price discounts from Polaris Industries, which sold motorcycles under its Indian brand. However, Levatich had refused to engage in a price war and expected more sales, even while his industry was becoming more competitive and his loyal customer base was shifting.

Customer Shifts

For generations, particularly in Hollywood movies and TV commercials, the typical Harley-Davidson customer had been a rebel—the unshaven “bad guy,” outlaw, and irresistible villain. “While no other motorcycle manufacturer enjoys the instant name recognition of Harley-Davidson, it’s also true that the recession hit Harley harder than it did any other motorcycle brand,” one article noted.[[29]](#endnote-29) However, since the 2008 financial crisis, sales to typical Harley-Davidson customers (e.g., white males) had been declining. The Interbrand agency, which had measured brand value or equity for more than 20 years and attributed values to brands based on financial statements, associated market dynamics, and forecasted future earnings, reported the following disturbing statistic in 2009: “According to Interbrand, Harley-Davidson experienced the biggest drop in value. The ‘legend’s’ value dropped by 43 per cent to $4.34 billion, which is most likely connected to the 66 per cent drop in the company profits in two quarters of the last year.”[[30]](#endnote-30)

Since 2009, Harley-Davidson had been forced to shift toward a new (younger) generation of riders, since the “real riders” who made up the company’s traditional customer base (i.e., white males, 45 years old or older) were aging and declining in numbers. That shift had happened over decades. In 1987, the median age of Harley-Davidson customers was 35, and had risen to 47 by 2007. A full 60 per cent of the company’s customers were baby boomers born between 1946 and 1964.[[31]](#endnote-31) In 2015, the number of U.S. baby boomers was 74.9 million, down from its 1999 peak of 78.8 million; this generation was expected to number 16.6 million by 2050.[[32]](#endnote-32) Harley-Davidson had been trying to build a more diversified customer base in the United States by attracting more women, African American, and Hispanic customers. As such, it had started to court women as riders through garage parties, a marketing effort that was showing some positive results.[[33]](#endnote-33)

However, millennials tended to prefer experiences rather than possessions such as motorcycles. They sought differentiation and customization, associated the Harley-Davidson brand with their grandparents, and could not afford luxurious motorcycles.[[34]](#endnote-34) Based on this information, Harley-Davidson changed its product mix, selling 6.4 per cent fewer Touring motorcycles, which emphasized comfort and load capacity, and instead selling 4.7 per cent more Cruiser motorcycles, which emphasized styling and customization. It maintained the existing percentage of Sportsters, which emphasized performance; worldwide retail sales for this product declined by 1.6 per cent between 2015 and 2016.[[35]](#endnote-35)

In 2016, 62 per cent of Harley-Davidson’s retail sales were generated in the United States compared with 38 per cent in international markets,[[36]](#endnote-36) an increase of 22 per cent over the previous decade.[[37]](#endnote-37) This trend was clearly confirmed between 2006 and 2016 in terms of domestic motorcycle shipments decreasing from 273,212 to 170,688, whereas international motorcycle shipments increased from 75,984 to 95,694 for the same period (see Exhibit 3).

Harley-Davidson motorcycles and related products exported from plants in Pennsylvania, Missouri, and Wisconsin were distributed in 97 countries. While international retail sales of new Harley-Davidson motorcycles in 2016 increased by 2.3 per cent over 2015, this increase was offset by a 3.9 per cent decrease in U.S. retail sales in 2016 as compared to 2015.[[38]](#endnote-38) In the U.S. and international markets combined, Harley-Davidson’s retail sales were down 1.6 per cent (see Exhibit 4).

The new U.S. president was pushing an America First foreign policy agenda, and the company was experiencing lacklustre quarterly results, including decreases in revenue (down 14.28 per cent), net income (down 25.58 per cent), and earnings per share (down 22.08 per cent) compared with the same period in 2016. Harley-Davidson’s CEO needed to address a pressing dilemma: to expand internationally or not. It was decision time.

Exhibit 1: HARLEY-DAVIDSON INC. Net Income StatementS, 2012–2016 (In US$ thousands, except per-share amounts)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **2016** | **2015** | **2014** | **2013** | **2012** |
| **Revenue** | | | | | |
| Motorcycles and Related Products | $5,271,376 | $5,308,744 | $5,567,681 | $5,258,290 | $4,942,582 |
| Financial Services | $725,082 | $686,658 | $660,827 | $641,582 | $637,924 |
| Total | $5,996,458 | $5,995,402 | $6,228,508 | $5,899,872 | $5,580,506 |
| Net Income | $692,164 | $752,207 | $844,611 | $733,993 | $623,925 |
| Earnings Per Common Share (Basic) | $3.85 | $3.71 | $3.90 | $3.30 | $2.75 |
| **Balance Sheet Data** | | | | | |
| Total Assets | $9,890,240 | $9,972,977 | $9,515,870 | $9,394,765 | $9,156,072 |
| Total Debt | $6,807,567 | $6,872,198 | $5,492,402 | $5,248,895 | $5,087,948 |
| Total Equity | $1,920,158 | $1,839,654 | $2,909,286 | $3,009,486 | $2,557,624 |

Source: Created by case authors, based on Harley-Davidson Inc., *Annual Report on Form 10-K for the Year Ended December 31, 2016*, 2017, 22, accessed October 8, 2017, www.annualreports.com/HostedData/AnnualReports/PDF/NYSE\_HOG\_2016.pdf.

Exhibit 2: Most Popular Brands of Motorcyles  
among 18-year-old motorcycle owners surveyed

|  |  |  |
| --- | --- | --- |
| **Motorcycle Brand** | **Would Consider Buying This Brand** | **I Own This** |
| Honda | 41% | 30% |
| Harley-Davidson | 42% | 29% |
| Yamaha | 36% | 25% |
| Suzuki | 35% | 23% |
| BMW | 36% | 23% |
| Kawasaki | 33% | 22% |
| Ducati | 25% | 14% |

Source: Mintel Group Limited, *US Motorcycles Market Report*, May 2016, accessed October 9, 2017, http://store.mintel.com/us-motorcycles-market-report.

Exhibit 3: Harley-Davidson Inc. Motorcycle Shipments (SELECTED YEARS, 1986–2015)

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **1986** | **1991** | **1996** | **2001** | **2006** | **2011** | **2016** |
| Sportster | 11,959 | 18,735 | 31,173 | 50,814 | 64,557 | 49,656 | 62,407 |
| Cruiser | 18,398 | 39,550 | 63,198 | 118,303 | 161,195 | 91,459 | 89,207 |
| Touring | 6,378 | 10,341 | 24,400 | 65,344 | 123,444 | 92,002 | 114,768 |
| Total Domestic | 29,910 | 46,993 | 84,114 | 186,915 | 273,212 | 152,180 | 170,688 |
| Total International | 6,825 | 21,633 | 34,657 | 47,546 | 75,984 | 80,937 | 95,694 |
| Total Domestic and International Shipments | 36,735 | 68,626 | 118,771 | 234,461 | 349,196 | 233,117 | 266,382 |

Note: Selected data was from five-year periods; Buell motorcycles were excluded.

Source: Created by case authors, based on data from “Financials,” Harley-Davidson Motorcycles, accessed November 20, 2017, http://investor.harley-davidson.com/financials.

Exhibit 4: Distribution of Harley-Davidson Products

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **United States** | **Canada** | **Latin America** | **EMEA** | **Asia Pacific** | **Total** |
| Dealerships | 701 | 67 | 58 | 386 | 249 | 1,461 |
| Change in Retail Sales (2016 versus 2015) | −3.9% | +5.5% | −13.2% | +5.9% | +2% | –1.6% |

Note: EMEA = Europe/Middle East/Africa.

Source: Created by case authors, based on data from “Financials,” Harley-Davidson Motorcycles, accessed November 20, 2017, http://investor.harley-davidson.com/financials; PRNewswire.com, “Harley-Davidson Reports Fourth Quarter, Full-Year 2016 Results” Harley-Davidson Motorcycles, January 31, 2017, April 17, 2018, https://www.prnewswire.com/news-releases/harley-davidson-reports-fourth-quarter-full-year-2016-results-300399165.html..

ENDNOTES

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