

A Case Study of Harley-Davidson Motorcycle Co.

Adapted from an article written by Reginald A. Bruce, The College of Business and Public Administration, University of Louisville

Company History

The Harley-Davidson Motorcycle Company was established in 1903 by William Harley and Walter, William, and Arthur Davidson, who built their first three motorcycles in a shed in Milwaukee. By 1909, the company introduced its trademark bike: a 2 cylinder, V-twin engine (the fastest motorcycle at that time), able to reach speeds of 60 mph.

During World War I, the overseas demand for American motorcycles grew tremendously. Harley-Davidson became a leader in innovative engineering in the 1920s. With the introduction of the front brake and "teardrop" gas tanks, Harley was quickly developing its unique signature appearance. Industry volume, which thrived after World War I, deteriorated quickly with the onset of the Great Depression. As one of only two remaining motorcycle companies, Harley-Davidson survived because of exports and sales to the police and military.

Harley-Davidson prospered from military purchasing during World War II. Over 90,000 cycles were built for the military which elevated their production to record levels and earned them the coveted Army-Navy "E" award for excellence in wartime production. After the war, HD went from producing military to recreational bikes. HD developed and introduced the K-model (1952), Sportster ("Superbike", 1957), and Duo-Glide (1958) motorcycles. By 1953, Harley-Davidson was the last remaining major motorcycle manufacturer in the US.

Harley-Davidson was taken over by the American Machine and Foundry (AMF) in 1969. But during the 1970s HD began quickly losing market share to Japanese competitors. HD seemed incapable of producing a product that could compete with Japanese imports. AMF put the company up for sale in the late 70s due to plummeting sales, thought to be a reflection of the poor level of reliability and overall quality found in Harley products, compared to those offered by Japanese competitors.

In 1981, thirteen members of the former Harley-Davidson management team purchased the company from AMF in a leveraged buy-out. But, within the first year, overall demand for motorcycles dropped dramatically and HD's share of this market also continued to drop. This even greater reduction in sales for HD resulted in a large inventory of unsold products. HD was aware they would no longer be able to continue their business at their current production level and operating cost. Therefore, production was cut drastically, and more than 1,800 of its 4,000 employees were let go. In a move to help the floundering United States motorcycle industry (which was effectively HD) in 1983, the US Congress, spurred by President Ronald Reagan, increased tariffs on large Japanese motorcycles from 4.4 percent to 49.4 percent. The tariff would decline annually over the next five years. Japanese motorcycle manufacturers responded by downsizing their largest motorbikes for 750cc to 700cc, which was below the tariff cut-off.

In 1985, minutes away from bankruptcy, Harley-Davidson CEO Richard Teerlink convinced the company's lenders to accept a restructuring plan. Using management principles adopted from the Japanese, new marketing strategies, and new

manufacturing techniques, HD slowly improved the quality of its products and began the long battle to regain lost market share. In 1987, one year before the tariffs on Japanese heavyweight motorcycles were scheduled to end, HD management was so confident in their new systems that they announced they no longer needed special tariffs to compete with the Japanese motorcycle giants.

Today Harley-Davidson Inc., an employer of 4,694 workers, consists of Harley-Davidson Motor Company based in Milwaukee, and Eagle-mark Financial Services Inc. based in Chicago. HD has nearly 600 dealerships throughout the United States. HD's commitment to continuous improvement is exemplified in the contrasting financial statements in the table below

Harley's Management Issues

Although HD was very profitable during World Wars I and II, this status quickly changed during the 1970s. After the leveraged buy-out, HD's new owners realized that in order to make the necessary improvements, they had to determine what went wrong. After careful analysis, the management team developed the following list of practices which were the main contributors to the problems previously experienced:

- Corporate management focused mostly on short term returns.
- Management did not listen to its employees or give them responsibility for the quality of what they made.
- High inventories of parts gobbled up cash and reduced productivity.
- Belief in quick fixes for problems, such as throwing in computers and state-of-the-art machinery to improve productivity.
- High break-even point that left the company vulnerable to unpredictable market fluctuations.
- Management that woke up too late to the threat of foreign competition because of the "it can't happen here" syndrome.

Marketing

Harley-Davidson enjoyed a virtual monopoly in the domestic US motorcycle market for many decades. In the 1970s, Japanese manufacturers flooded the market with high quality, low priced bikes. From 1973–1983, HD's market share went from 77.5% to 23.3%, with Honda owning 44% of the market by 1983. Harley-Davidson could not compete on price against the Japanese motorcycle producers, so it had to establish other market values and improve quality.

Simultaneously, the US consumer base was undergoing a revolution, which mandated consumer driven products. HD had to change from a company that dictated what its customers could have, to strategies based on direct input from customers. A marketing philosophy was developed based on the customers' desires, as gleaned through surveys, interviews and focus groups.

Image

"The real power of Harley-Davidson is the power to market to consumers who love the

product." According to CEO Richard Teerlink, In America the HD bike represents "the adventurous pioneer spirit, the wild west, having your own horse, and going where you want to go . . . personal freedom and independence." Brand loyalty for Harley-Davidson is more emotional than for many other brands. To their owners, Harleys are considered more than motorcycles—even somewhat of a legend. Harley Davidson is an American icon brand. The brand's symbol is based on a pattern of associations that include the American flag and the eagle, reflecting the passion and freedom Americans enjoy.

It is difficult to define an average Harley-Davidson buyer. The demographics range from blue-collar workers to high-powered executives. The common thread is a desire to escape the routine and take on an alternative persona. While HD's competitors base their advertising on product technology and features, Harley promotes a mystique, a unique appearance, individualism, the feeling of riding free, and the pride of owning a legend. With a Harley, you can "live out your fantasies, and experience camaraderie with fellow bikers."

Customer Relations

When a customer buys a Harley-Davidson motorcycle, they receive a free 1-year membership to the Harley Owners Group (HOG). HOG was developed in 1983 as a program to keep people active with their Harleys. Simultaneously, it keeps the company close to its customer. HOG has 295,000 worldwide members, 900 local chapters and is the largest company-sponsored motorcycle enthusiast group. It conducts 4 US national rallies, 2 touring rallies, and 44 state rallies. These rallies encourage people to use their motorcycles and to share in the excitement of riding. During the rallies, demonstration rides are given, and participants have the opportunity to ask questions, register their bikes, and buy merchandise. According to Michael D. Keefe, director of HOG, these rallies are considered "more like customer bonding. If people use the motorcycle, they'll stay involved. Harley's management crewmembers are masters of marketing. What they do well is listen to their customers. The result is that Harley cannot keep up with demand at current production levels." Company executives learn from their customers by maintaining a database to track consumer desires. Company officers spend almost every weekend from April through October at motorcycle events and dealerships accumulating this information.

Promotion

The primary promotional tool for Harley-Davidson motorcycles are the HOG activities. Not only does it serve as a customer relations device, but as a way to showcase and demonstrate new products. As discussed in the image section, HD develops a strong impression within consumers. In 1983, the company developed a trademark licensing program that provides income for dealers and the factory while expanding the total Harley experience. The company program put a stop to bootleg Harley-Davidson merchandise and offered priceless advertising.

HD has capitalized on the fact its product/image is chic. There are numerous examples of fashion models draped over the bikes and wearing company T-shirts. The company is starting to advertise in magazines geared to the general public. Twice a year, a Fashions and Collectibles catalog is produced with various Harley merchandise. Clothes sold in stores such as Bloomingdales and J.C. Penny expose Harley-Davidson to people who may not have thought about visiting a dealership. Another marketing strategy,

Harley-Davidson Cafes, have been opened in or near many dealerships to lure people into the showroom. In fact, the Harley-Davidson Cafe in New York City won one of the 1994 Restaurant and Institutions Interior Design Awards for its American appearance. Also, Harley-Davidson's advertising techniques are so successful they were one of the 1995 finalists of the Kelly Award for advertising. The company is able to promote the sale of its motorcycles by the financial services offered by Eagle-mark, a wholly owned subsidiary. The dealerships are becoming a one stop shop for bikes, accessories, clothing and financing.

Product

HD found its strength was in the heavyweight division. It also identified and exploited mini-niches, such as customized, touring, sport/touring and sport/street motorcycles, in the heavyweight end of the market. When Harley-Davidson was formed, it only offered one color of motorcycle—gray—and three basic styles. The company learned it needed to give the customers a choice and now offers a variety of models, including Sportsters, Super Glides, Low Riders, Softails, Sport Glides, Tour Glides and Electra Glides, in numerous vivid colors. Many of these models and changes were developed when HD realized its customers were customizing the bikes and none of the revenue from the work was going to the company. When a style is changed or developed, HD always develops it around their signature image to make sure that the product is not only a high quality piece of equipment but is also charismatic.

Pricing

Harley-Davidson quickly learned it could not compete with the foreign manufacturers on cost. Not only did Honda have a low priced product, it was able to defeat Harley in advertising 40-1. Therefore, HD developed a strategy of value over price. This was created through the development of mini-niches and the heavy construction of the parts. Japanese manufacturers used more plastic in their products, while HD used steel, which is able to be rebuilt and refurbished. HD was careful not to exceed demand in production of their motorcycles. Currently, people must wait six to eighteen months for a new motorcycle and the price for a year-old Harley is 25% to 30% higher than a new one. By not being able to meet demand, an attitude of *must-have* has developed. Therefore, Harley has plans to double capacity to 200,000 motorcycles annually by 2003.

Distribution

Harley-Davidson motorcycles are sold by 1,065 dealers worldwide. The company owns 54 percent of the market share in the USA, 16 percent in Japan, 10 percent in Europe, and 38 percent in Australia. The foreign markets could be larger, but the company has an agreement with American dealers not to sell more than 30 percent of the bikes overseas, if the domestic demand is not met. In 1983 the company implemented a program to concentrate on helping its dealers develop the up-to-date business skills they need to sell motorcycles more effectively. The headquarters sponsored training programs are dubbed "Harley-Davidson University." The dealers are considered to be business partners and the headquarters plays an active role in developing programs, financing improvements, implementing support and management consultants. The dealers also invest their own money into these programs which allows them to feel like a part of the company. Harley-Davidson treats its dealers not only as partners, but also as customers. Harley has developed a very effective marketing strategy, but it is

the responsibility of manufacturing to produce high quality and reliable motorcycles.

Manufacturing

Initially, HD's manufacturing plants were designed to use a batch process in the flow of material on its plant floor and the frequency of products made. This process resulted in high unit labor costs, and made larger-scale production difficult to achieve. HD's batch operation was illustrated by its grouping of machinery. The factory resembled a huge, maze-like operation in which parts were tooled in large batches and moved from one machine to another all over the plant. Operators had to use forklifts to move the materials around the facility. There was no straight flow process; therefore, setup times were very high and output rates were very low.

With HD's transition from a privately financed company to a public company, it was forced to seek an alternative method of production to achieve quality and productivity. The first step was to determine the specific areas which needed improvement. It was important for HD to understand that all aspects of the business needed to be examined for flaws in order to develop an effective flow process. An improved process was developed and implemented successfully only after the synergy of a "productivity triad" was conceived. The triad encompassed: (1) just-in-time inventory; (2) employee involvement and ownership of the manufacturing process; and (3) statistical quality control.

HD employees eagerly took on "ownership" of quality in order to make improvements they long thought necessary. They were able to successfully monitor the process, and if they found problems they could immediately stop the process and fix or quickly inform management about the issue. All of these concepts together lead to an improved quality in HD motorcycles. Over time, these techniques working in synergy led HD to a production method that turned the company around.

Just-in-time inventories, continuous improvement, employee involvement, team building and employee training and empowerment are not just words out of a management book for Harley-Davidson. Only by adopting these techniques was Harley-Davidson able to improve its products. These efforts, coupled with HD's realization of the importance of customer feedback and marketing efforts to build relationships with the potential and existing customers, enabled HD to rebound and thrive as the highly competitive global market for motorcycles developed and evolved.