

Ducati Motorcycle (Italy)

Riding traditional business channels or racing through the Internet

We believe that, thanks to the wild success of the MH900e, the first [motor]bike ever to be launched and sold over the Internet, the Internet will become a strategic tool in the future growth of the Ducati businesses.¹

*Federico Minoli, Chair and Chief Executive Officer,
Ducati Motor S.p.A.²*

The MH900e is a high-performance, hand-built motorcycle that was produced as a limited edition. It was sold at a unit price of €15 000³ exclusively through the Internet starting on 1 January 2000 at 00:01 a.m. GMT.⁴ The first year's production was sold out in just 31 minutes, before production had even started. With its online sales of the MH900e motorcycle, Ducati became one of Italy's largest e-tailers.

Ducati: company overview

The Ducati brothers founded their company in 1926, with headquarters and production facilities located in Bologna, Italy. Ducati is a leading premium price manufacturer of high performance motorcycles. Since the 1950s, Ducati motorcycles have dominated the World Superbike Championship. As a result, over the years racing has inspired the company's four model lines: Superbike, Super Sport, Sport Naked (also called Monster) and Sport Touring.

The company competes in the sport sub-segment of the road market segment with engine capacities of over 500 cc.⁵ Ducati categorizes the motorcycle market into four segments: the motor-scooter market, the off-

road market, the road market with engine capacities of less than 500 cc, and the road market with engine capacities of over 500 cc. The road-market segment with engine capacities of over 500 cc includes four sub-segments: sport, touring, dual and cruiser. Motorcycles in the sport sub-segment are built for, or inspired by, racing. Those in the touring and dual sub-segments are designed for comfortable, long-distance travel and for both on-road and off-road riding. The cruiser sub-segment comprises heavy motorcycles with classic American design.

The four Ducati models differ in design, technical features and target customers. The most popular model line is the Monster (52.1% of revenues in 1999), followed by the Superbike (25.2%), the Super Sport (14.3%) and the Sport Touring (8.4%). The flagship product, Superbike, has gained much ground over the past three years.

Besides motorcycles, Ducati sells parts, accessories and apparel in 40 countries worldwide, with a focus on Western Europe and North America. In 1999, these regions accounted for 85% of overall sales, with the remaining 15% generated in Asia and Australia.

Ducati has a global distribution network. In Belgium, Italy and Sweden, it sells motorcycles and

1 Ducati press release, 6 March 2000, Bologna, Italy.

2 S.p.A. (Società per azioni) is a joint stock company.

3 On 31 December 1999, €1 = US\$1.0041.

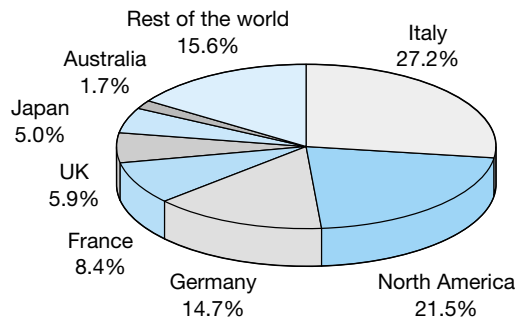
4 GMT stands for Greenwich Mean Time.

5 cc stands for cubic centimetre, a measurement for the motor cylinder capacity.

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The case was made possible by the co-operation of Ducati Motor S.p.A. (Italy).

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Exhibit 13.1 Geographical distribution of Ducati 1999 Revenues

related products to its retail dealers directly out of Bologna. In other key markets (including Germany, France, Japan and the USA), wholly owned subsidiaries are responsible for Ducati's wholesale distribution. Ducati enhanced its control over key markets (see Exhibit 1) by increasing the number of subsidiaries, replacing underperforming distributors

and appointing new distributors to enter new markets (such as Bahrain, Chile, Malta and Thailand).

In Italy, Ducati started restructuring its dealer network by turning dealer outlets into special Ducati retail outlets (called Ducati stores and Ducati corners). In the remaining countries, independent distributors function as intermediaries between Ducati Motor and retail dealers. In all markets (except Belgium, Italy and Sweden), dealers purchase Ducati products from subsidiaries or distributors and sell them to the final Ducati customer.

In 1983, Ducati became part of the Caviga group, an Italian manufacturing conglomerate. In September 1996, following a liquidity crisis at Caviga, Ducati Motor Holding (DMH) was created. Through a series of transactions, the USA-based Texas Pacific Group (TPG) and Deutsche Morgan Grenfell Capital Italy (DMGCI)⁶ acquired 51% of DMH. In July 1998, the

⁶ DMGCI is the Italian subsidiary of Deutsche Bank's asset-management and private banking arm.

Table 1 Financial data, product mix and registration data of Ducati (L millions)

31 December	1997	1998	1999
Motorcycles	347.2	401.8	491.9
Spares parts, accessories, apparel	15.5	52.1	71.8
Miscellaneous	16.3	11.2	6.6
Total net revenues	379.0	465.1	570.3
Cost of goods sold	(234.6)	(287.4)	(341.8)
Gross profit	144.5	177.7	228.4
Gross profit (% of net sales)	38	38	40
Other operating revenues	1.0	2.3	3.4
Operating income (loss)	32.4	41.4	51.1
Net profit (loss)	5.2	(2.4)	17.3
EBITDA	65.1	79.1	98.3
EBITDA margin (%)	17	17	17
Net debt	284.5	290.4	217.5
Total shareholders' equity	142.6	139.0	253.8
Net debt/total net capitalization (%)	66	67	46
Twelve months ending 31 December	1998	1999	Change over previous year (%)
Total motorcycle units shipped (per model line)	28 011	33 124	+18
Sports Segment (Superbike and Super Sport)	13 368	13 461	+1
Monster	11 994	16 770	+40
Sport Touring	2 649	2 893	+9
Total motorcycle units registered (per region)	27 304	32 135	+18
North America	3 739	4 805	+29
Europe	20,019	23,302	+16%
Japan	1,383	1,418	+3%
Rest of the world	2,163	2,610	+21%

remaining 49% of Caviga shares were purchased by TPG, which still owns 33% of Ducati Motor. All other shares are traded over the New York Stock Exchange and Borsa Italiana S.p.A., the Italian stock exchange. Following the transfer of Ducati ownership in 1996, a turnaround programme was initiated, aiming at increasing production and net sales. Ducati paid outstanding obligations to suppliers, increased its working capital to raise production levels, installed a new management team, and hired 250 professionals worldwide. The company rebuilt its sales, marketing and public relations departments, revamped its corporate image and is streamlining its assembly process and introducing new models.

As of December 1999, Ducati's revenues totalled L570 billion,⁷ an increase of 22.6% over the previous year (see Table 1). In the same period, registered motorcycles, a key measure of retail sales, increased by 17.7% to 32 135 units. The net profit was L17.3 billion⁸ compared with a loss of L2.4 billion in 1998⁹ and a net profit of L5.2 billion in 1997.

Ducati competes mainly with four Japanese manufacturers (Honda, Suzuki, Yamaha, Kawasaki), two European manufacturers (BMW, Triumph) and, to some extent, with the USA-based Harley-Davidson's Buell Division. The Japanese manufacturers are generalists competing in all segments, from scooters to large-capacity motorcycles, while BMW and Triumph only manufacture motorcycles for various sub-segments in the large-capacity road market. Harley Davidson focuses on a niche market, the cruiser segment, although it also offers Sport Naked motorcycles. Within its specific business segment, Ducati's market share increased in 1999 to reach 6% of the Western European market. Japanese competitors have a greater market share worldwide, with Honda accounting for 26%, Suzuki for 23%, Yamaha for 17% and Kawasaki for 17%. Harley Davidson, BMW and Triumph have market shares of 5%, 4% and 2%, respectively. Ducati estimates reaching a market share of 17% in Italy, 6% in the UK, 4% in North America, 3% in France and Germany, and 2% in Japan.

Ducati's Business Strategy

In this era of laziness, instant gratification and armchair comfort, the motorcycle is the real, physical anti-Internet experience.

Cristiano Silei, General Manager of Ducati.com

Since the 1996 acquisition of the company by TPG and DMGCI, Ducati has been trying to increase its sales and profitability. In order to attain this goal, it broadened its product portfolio, restructured and strengthened its distribution network, focused on developing the Ducati brand and tried to raise production efficiency. 'We are not trying to do things that we can't do,' explained David Gross, Director of Strategic Planning at Ducati. 'Our competence is making and selling motorcycles. We build relationships with other people who are attracted by the excitement of our product and will help us to broaden the World of Ducati.'

Ducati motorcycle features (such as its design, the valve control, and the L-twin engine with its special sound) constitute the basis of a distinguished product that attracts customers and builds loyalty. Besides introducing new models, Ducati continuously upgrades its existing motorcycles through design and technical innovations. In this way, the company aims at satisfying customer demands and strengthening its brand name.

The company's short-term aim is to increase the number of registered Ducati motorcycles worldwide by an average annual growth of 15%. To achieve this goal, Ducati decided to broaden the boundaries of its market niche by leveraging its brand name. 'That's where our strength is,' explained Christopher Spira, Head of Investor Relations at Ducati. 'We have a global brand behind us.' Ducati motorcycles are positioned in the niche 'Function/Performance' (see Exhibit 2), emphasizing strong functionality and high performance. However, Ducati wants to expand its niche boundaries towards the quadrant 'Comfort/Lifestyle' and also wants to introduce new motorcycle-related products, such as motorcycle accessories and apparel, while remaining faithful to its niche.

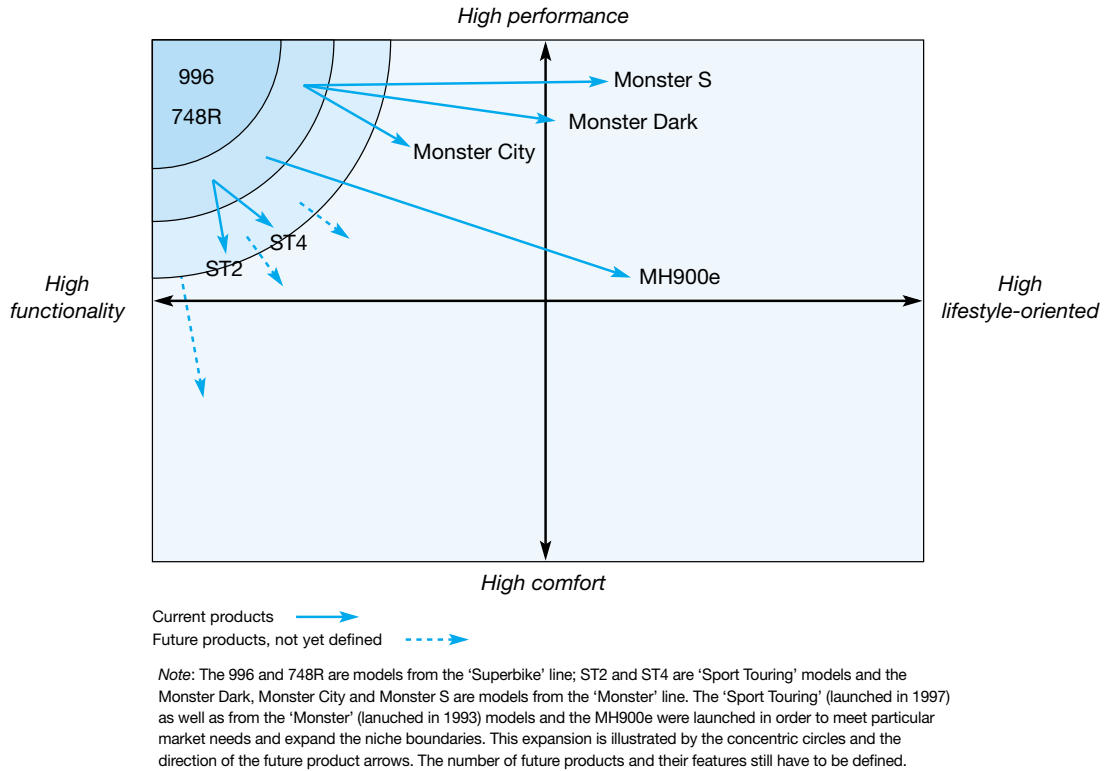
In November 1999, Ducati increased its stake in Gio.Ca.Moto, an Italian technical accessory com-

7 On 31 December 1999, Italian lire (L) 1,000 = €0.5165; L1000 = US\$0.5186.

8 Financial reporting at Ducati is in accordance with both US GAAP (generally accepted accounting principles) and Italian GAAP.

9 The 1998 loss was due to non-recurring operating expenses of L16.9 billion, caused by the write-off of debt issuance costs and cash settled for warrant rights to credit institutions that arranged prior financing. Ducati had no similar non-recurring expenses in 1997.

Exhibit 2 Expansion of Ducati's niche boundaries



Source: adapted from Ducati document, March 2000

pany, from 50% to 99.9%. 'This represents a strategic step in our development of the World of Ducati',¹⁰ explained Federico Minoli. Accessories are marketed under the 'Ducati Performance' brand name and are used to personalize the Ducati motorcycle to customer needs. Through co-operation with Dainese, a leading Italian manufacturer of technical riding gear, Ducati sells its products under the Ducati-Dainese brand name. In 1999, sales of motorcycle-related products amounted to 4.2% of total revenues, while motorcycle sales accounted for 86.3% (spare parts accounted for 8.3% and other miscellaneous items accounted for the remaining 1.2%).

The company's short-term goal is to increase motorcycle-related sales to 10% of revenues. Furthermore, Ducati selectively licenses the Ducati brand and plans to forge additional strategic alliances with companies that add value to the Ducati image and do not ask for any financial exchange.

For Ducati, distribution is a strategic pillar in its drive towards increased market share and higher

profitability. In 1997, the company restructured its distribution system with the goal of maximising retail sales and getting closer to the customer. Motorcycles, spare parts, accessories and apparel are sold worldwide via 800 independent privately owned dealers. The reduction of dealer outlets was one part of the turnaround programme that was started in Italy. Between 1996 and April 2000, the number of Ducati dealers was reduced from 165 to 61. The most important selection criteria for dealer outlets were geographical location, relationship with the dealer, sales turnover and Ducati's relative importance compared with other brands sold by a dealer.

Dealers received style guides and graphic packages to convert their outlet into a Ducati store. Such conversion requires not only offering sufficient space in order to display the Ducati products, but also having adequate workshop facilities and qualified staff. 'The

¹⁰ The 'World of Ducati' will be described later

main prerequisite for opening a [Ducati] store is passion for this distinguished brand,' stated Carlo Simognini, Director of Sales and Marketing at Ducati. 'This is the only reliable basis on which to build true commercial success.'¹¹

Ducati stores are exclusive Ducati outlets, selling motorcycles, spare parts, accessories and apparel. They offer a customized retail environment as well as an increased level of service and technical support. In the medium term, Ducati expects to set up about 200 Ducati stores worldwide. Today's 40 independent Ducati stores outsell the ordinary dealer outlets by significant margins.

Ducati corners are a compromise between the exclusive Ducati store and the ordinary dealer outlet. If the market is not big enough to justify setting up an exclusive Ducati store, then a Ducati corner can be set up in a large dealer outlet offering a number of brands. David Gross explained:

You walk in a store [and] you see motorcycles of all different brands everywhere, but in one corner you see this whole kind of Ducati experience. You have the walls, the panels, the colours, the design [and] the purity of the lines.

With the growing number of Ducati stores and Ducati corners, Ducati aims at further developing the Ducati lifestyle image. Furthermore, the company introduced a Ducati store on its Internet website. Besides using the traditional dealer-based sales channel, Ducati started selling over the Internet with the introduction of the MH900e model.

Ducati increased its production efficiency by rationalizing the manufacturing process and reducing complexity. The number of motorbikes made per production employee increased from 78 units in 1998 to 83 units in 1999. EBITDA¹² also increased in 1999 by 24.3% to L98.3 billion, which is 17.2% of total revenues, one of the highest EBITDA margins in the industry.

The 'physical' world of Ducati

Ducati is more than just a motorbike. It's the ultimate expression of performance motorcycling.

Massimo Bordi, General Manager of Ducati.

To strengthen its brand image, Ducati created the 'World of Ducati' containing motorcycles and motorcycle-related products and services (see Exhibit 3). The core products, consisting of motor-

cycles, accessories and apparel, are complemented by six categories: Racing, Advertising, the Ducati Desmo Owners Club (DOC), Events, the Ducati Museum and the Ducati University.¹³ Each category contains several sub-categories; for instance Racing includes sponsorship, a hospitality unit, the racing school,¹⁴ Desmobid,¹⁵ Racing Apparel, technical support and sales. The single categories are interconnected and are part of other categories (e.g. Racing is a category in its own right as well as being part of Advertising). Thus, the World of Ducati aims at strengthening Ducati's core products and image and thereby increasing Ducati sales and profitability.

Motorcycles and complementary products

Once you want a Ducati ... you won't buy anything else.

Ignacio Romero Morell, Ducati dealer in Granada, Spain

All Ducati motorcycles are produced in Borgo Panigale, just outside Bologna. The company started several production initiatives aiming at reducing production costs and improving the underlying process. In January 1999, Ducati introduced a production software that monitors the information flows from receipt of the customer order to the delivery of the motorcycle. Through customized material requirement planning (MRP) capabilities, the system automatically generates production schedules based on sales forecasts, optimizes warehouse volume levels, generates orders for purchasing materials and manages flows of materials for production.

Another Ducati production initiative is the implementation of the 'platform' approach, through which suppliers become responsible for delivering the key motorcycle components and managing their own sub-component providers. This reduces the number of suppliers, increases the volume of components provided by each supplier and thereby strengthens Ducati's bargaining power. Since several motorcycle models share common components, Ducati is able to maintain efficiency even at relatively low volumes.

11 Information found at www.microsoft.com/industry/km/business/casestudies/ducati-ms.stm. Page now removed.

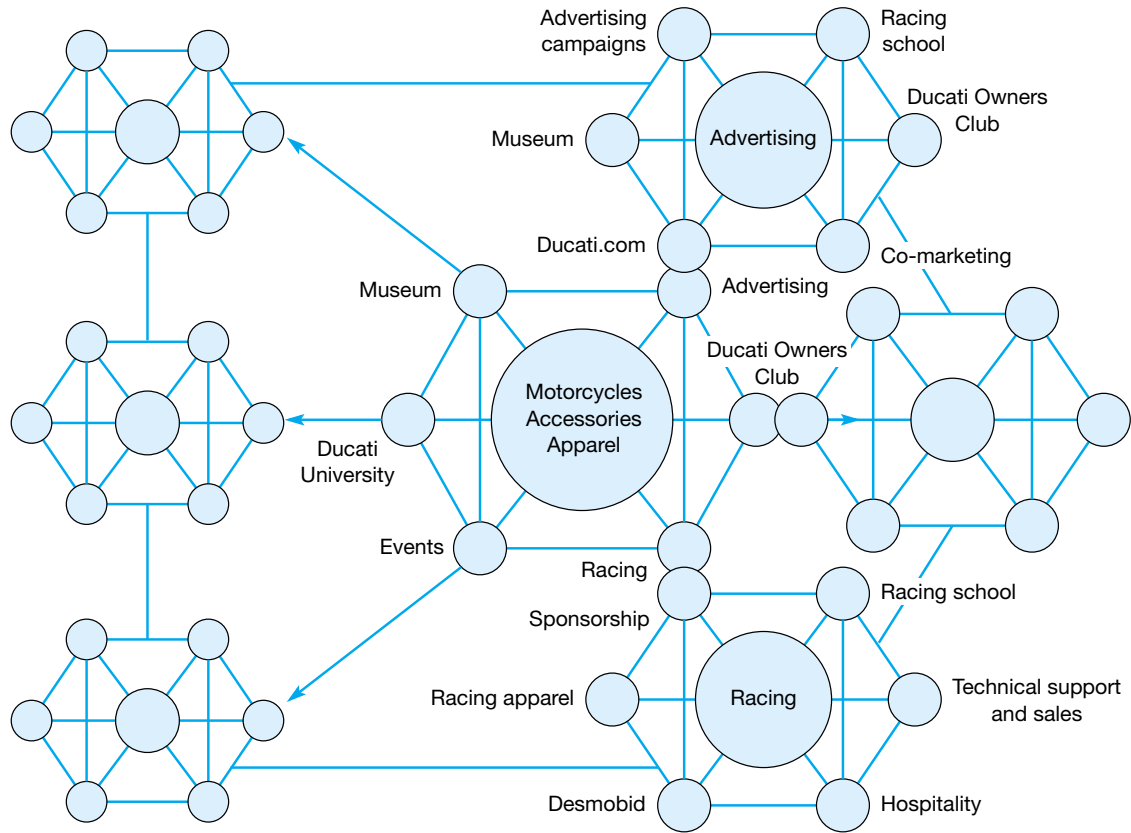
12 EBITDA stands for earnings before interest, taxes, depreciation and amortisation.

13 Ducati managers and technicians give lectures worldwide at universities and polytechnics on Ducati and its products.

14 The racing school teaches motorcycling at all levels.

15 Desmobid is a Ducati memorabilia auction on the Ducati website.

Exhibit 3 The world of Ducati



Source: Adapted from Ducati document, March 2000.

‘We outsource 85% of our production cost,’ said Christopher Spira:

Our factory could be anywhere. We are an assembly plant, an R&D centre and a design centre. We also have a large commercial area and a PR operation. We have outsourced all of our logistics.

Having outsourced the production of most of its components, Ducati essentially focuses on designing and assembling engines and motorcycles, and testing their quality. As a result, the fixed cost structure is relatively low. Direct and indirect labour costs amount to 15% of total costs incurred. Due to production initiatives, the daily rate of Ducati motorcycle production increased from 25 in September 1996 to more than 200 in May 2000. ‘This achievement is not a final goal, but an incentive to improve and satisfy the requests of our Ducati enthusiasts,’ commented Massimo Bordi.¹⁶ In order to reduce the number of key motorcycle components, Ducati tries to co-develop new components with

its key suppliers. For the next three years, 59 platform projects are planned that will optimize production and involve outsourcing non-strategic activities.

In 1999, sales of spare parts accounted for 8.2% with total sales, compared to 8.3% in 1998, and are among the highest-margin products sold by the company. The spare-parts catalogue and order processing are managed electronically. By December 1999, over 93% of all spare-part orders were fulfilled in Europe within 48 hours of receipt, and within 72 hours in the rest of the world. Logistics are outsourced to Saima Avandero, an Italian logistics company located just north of Bologna, which is responsible for the physical movement of the spare parts, their storage and the automation of the Ducati spare-parts warehouse.

¹⁶ Ducati press release, 17 May 2000, Bologna.

In order to personalize Ducati motorcycles, Gio.Ca.Moto designs and distributes performance and custom-made accessories, such as specialized exhaust systems, fenders, fairings and custom-painted fuel tanks. These accessories and apparels have high margins. 'Our customers resemble fans rather than mere buyers,' said Carlo Simognini.¹⁷ Since 1998, Ducati Gear has been providing Ducatisti¹⁸ with technical riding gear. Leather racing suits, jackets, gloves, boots and helmets are developed and produced in co-operation with Dainese. Ducati T-shirts, caps and memorabilia are also commercialized.

'One way of guaranteeing maximum exposure without having to dedicate large funds to advertising is by doing promotional marketing and forging strategic alliances,' commented Christopher Spira. In 1999, Ducati signed a partnership with Infostrada S.p.A., an Italian telecommunication company that became the title sponsor of the Ducati World Superbike Championship team and provided technical support in establishing Ducati's communications network. Ducati also established co-operation agreements with other companies, such as Mattel, Maisto, Majorette and Virgin Entertainment.

In the future, Ducati intends to focus its activities on the motorcycle-related business, enriching the World of Ducati with the licensing of motorcycle model replicas, toys, video games and 'online' racing, allowing fans to compete 'virtually' with each other through the Internet. Products not related to the race-track (such as boxer shorts, perfumes, etc.) will not be licensed by Ducati. Such activities aim at increasing Ducati brand awareness among the general public and also creating additional revenue streams.

Racing

Ducati has won eight of the last ten World Superbike Championship titles and more individual victories than the competition put together.¹⁹

Racing helps Ducati to enhance the company image and to increase the demand for its products. The components of the World of Racing are sponsorship, hospitality, the racing school, the online auction Desmobid, technical support, sales and racing apparel.

Ducati signed a major multi-year renewable sponsorship contract with Infostrada and a multi-year sponsorship and supply agreement with Royal Dutch Shell. Shell will be the official and exclusive lubricant

supplier not only for the racing team but also for Ducati's motorcycle production. A hospitality unit at the racetrack was created, and the racing school offers riding courses.

In October 1998, Ducati created a subsidiary, Ducati Corse, involved exclusively in racing activities. Besides its track-winning objective, Ducati Corse aims at leveraging Ducati's technological racing expertise into commercially oriented applications. It supports the Ducati team as well as other racing teams with technical knowledge, racing apparel, specialized motorcycles and engines. In 1999, costs amounted to L20 billion compared with L17.5 billion in 1998. Revenues from sales and sponsorship increased from L6.5 billion in 1998 to L13.4 billion in 1999, covering 67% of racing costs in 1999, up from 37% in 1998. Through the racing success of Ducati motorcycles, Ducati has enjoyed high visibility in the media and demonstrated the high-performance characteristics of its motorcycles.

Advertising

We find that we are lucky enough not to have to pay for any advertising [apart from ads in the motorcycle press]. Indeed, it is part of our strategy not to pay for advertising. We build alliances with famous international brands that help us at our events and activities, and we do the same for them.

David Gross

In order to establish Ducati as a global brand, a universal, homogeneous marketing strategy was introduced after the 1996 acquisition of the company. A new corporate identity was created by standardizing the corporate logo and lettering as well as the promotional and marketing material.

In order to reinforce the brand, Ducati advertises only in the sector press. The first global advertising campaign, called *Ducati/People*, features company employees. This campaign attempts to communicate authenticity, simplicity, consistency and the uniqueness of the Ducati brand. Instead of the colourful images typically used for advertising in the motorcycle industry, Ducati tries to demonstrate the nature of the brand as well as the design and style of its motorcycles.

¹⁷ Information found at www.microsoft.com/industry/km/business/casestudies/ducati-ms.stm. Page now removed.

¹⁸ Ducatisti are Ducati employees and Ducati fans owning Ducati motorcycles.

¹⁹ Ducati press release, 31 January 2000, Bologna, Italy.

Given Ducati's racing performance, the motorcycle press often writes articles on Ducati. Furthermore, the non-sector press (such as the *New York Times*, the *Wall Street Journal*, the *Financial Times*, CNN and Bloomberg) have published articles on Ducati. The brand enjoys a 'pull' effect, demonstrated by the attraction of Hollywood celebrities, Formula One racers, music stars and Ducati enthusiasts. Ducati motorcycles are shown in special museum exhibitions such as 'The Art of the Motorcycle' at the Guggenheim Museum in New York. Ducati also frequently lends bikes for photograph sessions in fashion, style and design magazines.

Ducati also fosters its advertising through the Ducati website (www.Ducati.com), which is available in Italian and English. Its traffic is increasing, and in March 2000 it received on average more than 150 000 hits a day. About 17 000 fans subscribe to the racing site in order to receive timely press releases and racing results. The Ducati Owners Club site has 20 000 users, after just three months of operating.

Co-marketing is carried out with other major international brands. In 1999, Sotheby's, an international auction house, had Ducati's MH900e on the cover page of the 'Motorcycles and Bicycles' auction. A whole section of the auction was dedicated to Ducati, offering racing and antique parts. DKNY, an American fashion company, provides on-the-track apparel for the Ducati racing teams and sells a limited collection of such apparel. Harrods of London exhibited Ducati motorcycles in its showcases during the 1998 Christmas season, offering them for sale. Ducati motorcycles have featured in several films and British television series (*Fled*, *Armageddon*, *The Professional*). 'We build strategic alliances with brands that add value to our brand without [requiring] any financial exchange,' explained David Gross. 'We [Ducati] exchange promotion, public relations and marketing initiatives [with these partners].'

Over 400 Ducati clubs exist worldwide, linking up the Ducatisti. The company sponsors some of the club activities, such as the World Ducati Weekend, which will be held in 2000 at the Misano racetrack in June. People will be able to race, and visit the Ducati factory and the museum in Bologna.

The Ducati museum is part of the Bologna headquarters and features the 'history of the men and machines that have raised the pulse rate of enthusiasts everywhere'.²⁰ The exhibition starts with the

Cucciolo (i.e. 'Puppy'), which was constructed in 1946 and was no more than a 48-cc, four-stroke engine bolted to a bicycle frame, and continues with a display of the whole Ducati motorcycle dynasty.

By the 1950s, Ducati had built the Marianna, which won several races during that decade. The engineer, Fabio Taglioni, who constructed this motorcycle was also the designer of the Ducati special valve-control system 'Desmodromic'. Ducati also created the Ducati Desmo Owners Club, with its DesmoCard, as well as the DesmoNet, Ducati's extranet connecting dealers with each other and with the factory.

The Ducati Desmo Owners Club (DOC)

DOC was a dream; now it's a reality. We want to build it up together with all our Ducatisti friends to make it the main point of reference for fans of the Desmodromic [motor]bike.²¹

Federico Minoli.

In 1999, the DOC was set up in the physical as well as in the virtual online world. Ducati Motor founded the club with the aim of interlinking members and their interests: their enthusiasm for riding Ducati motorcycles and opportunities for entertainment under the Ducati trademark. The Club is a non-profit organization; any Ducatisti can join it by filling in an application form.

Joining DOC allows members to make new friends, participate in club events and benefit from exclusive services. Since January 1999, the DesmoCard, which is free of charge, has been giving new Ducati owners special discounts on Ducati merchandise, Superbike Championship tickets and hotel rates worldwide. Furthermore, members-only sections offering DOC activities are provided by Ducati stores and the DOC's website (www.ducatidoc.org). At present, the club operates only in Italy, and the main DOC event offered is the World Ducati Weekend. Ducati recognizes that DOC features need to be more specific as well as developed and implemented in other markets.

The 'virtual' world of Ducati

We want to put a virtual layer on the real World of Ducati.

Cristiano Silei

²⁰ Ducati SportTouring brochure, 1999.

²¹ www.ducatidoc.com.

The goal is to build the World of Ducati online and to reinforce the Ducati brand. Ducati plans to enhance the existing homepage, which currently delivers mainly content, and create 'Ducati.com tomorrow'. In the near future, the site is expected to offer electronic commerce capabilities, host virtual communities,²² and provide motorcycle-related content, entertainment and financial services. Furthermore, the site will offer the opportunity to set up a personal homepage and to bet on motorcycle races.

Although the average Ducatisto/a is relatively young (27–30 years old),²³ Ducatisti, use the Internet in a limited way. 'I am not the typical Ducatisti, as I own two Ducatis that are more than 40 years old,' explains Federico Hansberg, an Italian Ducatisto. 'If I need information [on Ducati and its products], I would access the Ducati website, although I wouldn't purchase any spare parts or any other product through the Internet.'

Ducati.com today

Today, Ducati.com serves as an umbrella for several other Ducati sites, such as ducaticorse.com, memorabilia.ducati.com, ducaticorse.com and ducatistore.com (see Exhibit 4). It focuses on the content of the Ducati products, services and news. Ducatisti can apply online for membership to the DOC, customers can find addresses for technical services, and individuals searching for a job at Ducati can send their CVs online. Ducati fans can also communicate with the company and send suggestions regarding the company's website and products through the website.

Ducati.com today focuses neither on the virtual community nor on commerce. Online sales are limited

to the sale of the MH900e and to the online auction site (memorabilia.ducati.com). Other products, services and context features are not yet available online.

Content

Ducati.com today contains information on the company, its motorcycles, accessories, apparel, spare parts, stores and dealers, races and the museum. Each of its four motorcycle model lines and the MH900e are presented visually along with their technical data, new features and the service provided by Ducati. The virtual Ducati store supplies information on the nearest physical Ducati store and the complete range of motorcycles, clothing and accessories for customizing a Ducati motorcycle. It encourages clients to call or visit their local dealer and provides information on how to become a Ducati dealer. The visitor can also access information on the Ducati brand, current events and the latest news (e.g. the inauguration of a new Ducati store, new products, etc.). Ducati Corse provides racing-related content but does not yet broadcast races over the Web.

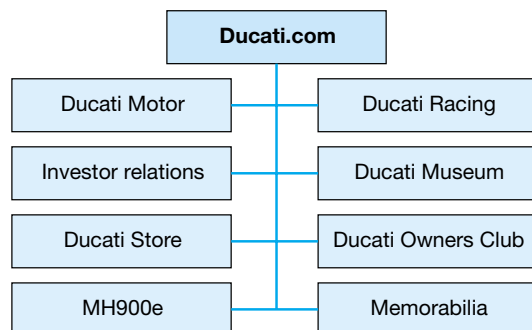
In case a customer requires further information on Ducati products, services, prices and dealers, email addresses and telephone numbers are provided, but there is no 24-hour hotline service yet. Customers can use the online dealer search to find an authorized Ducati dealer located close to their home.

The website also offers information on the company's history and the latest news as well as having an investor relations section. Investors or visitors to the Web page can look up press releases and subscribe to its mailing lists. They can find financial data on Ducati and its stock performance, which are updated every 20 minutes. Although the website delivers much content, it lacks help functions such as a search function or a site map.

Commerce

Ducati.com today offers only limited electronic commerce capabilities. In the B-2-C e-commerce category, the website supported the online sale of the MH900e and the launch of the Desmobid, but not

Exhibit 4 Structure of the current Ducati website



Source: Ducati document, March 2000

²² Virtual communities are groups of people with common interests and needs who come together online. They form a critical mass of purchasing power and exchange information on issues such as product price and quality.

²³ Ducati customer survey, November 1999.

that of other motorcycles, accessories and apparel. B-2-B e-commerce initiatives only account for the Ducati DesmoNet. The site still does not offer any C-2-C e-commerce service.

Business-to-Consumer

Although I haven't visited the Ducati website, I would buy a [motor] bike or certain specific accessories over the Internet. But I would need to see the product first.

Vicente Juan Perez, Spanish Ducati customer

The unexpected success of the MH900e

In 1998, Ducati presented its MH900e²⁴ prototype at the Intermot motorcycle show in Munich. MH are the initials of Mike Hailwood, who rode Ducatis and dominated the Grand Prix from 1958 until 1967. As a homage to him, capturing the emotion of the historic motorcycles of the era, Pierre Terblanche, Director of Ducati Design, took the initiative and built his 'dream bike'.

Since the MH900e press reviews were very positive and people the world over were requesting the product from Ducati, the company inserted a questionnaire on its website for two weeks to figure out whether fans would actually buy the hand-crafted MH900e. Three hundred Ducatisti responded positively. 'The press was so enthusiastic that Federico Minoli and Massimo Bordi decided to go into production,' recalled David Gross. 'The market wanted it.' Federico Minoli decided to produce a limited edition of 2000 MH900e units and to sell it online starting on 1 January 2000 at 00:01 a.m. (see Exhibit 5). It was the first motorbike ever to be

sold exclusively over the Internet, although it was to be delivered through the dealer network.

When ordering an MH900e, customers had to identify their nearest dealer and give their credit-card details. Upon checking the availability of funds, the order was transmitted to the selected Ducati dealer, who could either accept or reject processing it.²⁵ If the dealer agreed to process the order, then the customer's credit card was charged 10% of the MH900e price (i.e. €1500). A confirmation reference number was assigned and the client was added to the official MH900e owner registry. Afterwards, the Ducati dealer sent the customer the purchase agreement and informed them of the delivery status and the final price. Customers can track their motorcycle order status through the MH900e owner registry, which is available online.

If the customer cancelled their purchase order within five days of its placement, they got the 10% deposit back. Past this deadline, no refund would be made. The remaining €13 500 was to be paid upon delivery. The company planned to deliver the first ten motorcycles as a special event during the World Ducati Weekend in June 2000. Normal delivery through dealers started in the summer of 2000.

Since several MH900e features are not yet defined, the production costs and the final dealer commission are not fixed, although the dealer's commission will be less than the average one received on a normal Ducati. Approximately 1% of all dealers to whom MH900e orders were forwarded rejected them, although all the dealer has to do as a final check is to set the mirrors, deal with the registration documentation and hand over the keys to the owner. 'I think it's fair to say that the dealers' effort is minimal,' explained Cristiano Silei. 'For them [the dealers], it's a no-brainer. They receive a margin, but they have no inventory risk, no advertising cost [and] no marketing cost. We take care of all that at [Ducati] headquarters through our PR effort.'

The pricing policy is innovative: first, the retail price is the same throughout the world, although the final price varies according to taxation, shipping fees, set-up charges, insurance and registration. Second, it is the first motorbike to be priced only in euros.²⁶

Exhibit 5 The MH900e on the Ducati.com website



²⁴ 'e' stands for the Italian word *evoluzione*, meaning evolution.

²⁵ In case of a dealer rejection, the customer had to search for another dealer.

²⁶ The Ducati website offers the service of an online euro conversion. Potential customers can thus find out the exchange rate of the euro for their currency.

Although the suggested retail price is €15 000, Ducatisti who do not order over the Internet will have to pay a higher price. 'We ordered the MH[900e] on 4 January [2000] to sell it at our outlet,' explains Pablo April, employee at the Ducati dealer outlet in Granada. 'We suppose [that] the MH900e, which is only sold through the Internet, will be a collector's motorcycle. Therefore, we hope to find a Ducatisti who likes it and to whom we can resell it at a far higher price.'

Besides the few dealers who ordered the MH900e, most purchases were made by individuals from 20 different countries, including New Zealand, Singapore, Portugal, the USA, Turkey, Spain and Sweden. Of the customers, 30% are from Europe, 30% are from the USA and 39% are from Japan. According to Ducati officials, the surprisingly high percentage of Japanese orders suggests that the Japanese do more Internet commerce than other nationalities and that they are keen on collecting technical and designer products.

By selling the MH900e through the Internet, Ducati was aiming not at taking away business from the dealers, but rather at attracting new customers and helping bring more business to the dealers. 'I don't see any competition coming from the Internet,' says Ignacio Romero Morell. 'If I think of my customers, they are not Internet users. I assume people want to see the motorcycle and touch it.'

Although the MH900e production did not start before June 2000 (at a daily rate of five to six units), the first year's production was sold out within 31 minutes²⁷ of the year 2000. A catalogue has been developed to customize the MH900e. Customers are passionate about Ducati, and they put their trust in the brand to the extent that they are willing to leave a deposit of €1500.

The online memorabilia auction

The memorabilia auction website, Desmobid, gives fans all over the world the opportunity to acquire Ducati motorcycle parts that have been used and signed by a racing champion and to make a virtual visit of the Ducati racing box. The idea originated from enthusiasts coming to the Ducati box after a race and asking if they could have a valve, a piston or a fairing that had been damaged during the race.

In order to bid, Ducatisti must first register, which is free of charge. This gives them a password and an

identification number. The memorabilia merchandise is divided into two categories: SBK Bikes Memorabilia, used at the World Superbike Championships, and Museo Ducati Memorabilia, which contains collectors' items. Two Ducatisti, nicknamed Mira and More-desmo, accessed the online auction rooms and became the winning bidders for an official Ducati Corse racing-team shirt. Mira paid US\$240 while More-desmo paid US\$235.

Business-to-business

The Ducati DesmoNet™

In order to better control customer order management, facilitate information exchange between sales outlets and headquarters, and offer an improved customer service, Ducati has introduced an extranet service called DesmoNet™. This links Ducati stores with one another and with Ducati's headquarters. DesmoNet was introduced in Italy at every Ducati store and set up during the year 2000 in other European countries (including France, Spain and the UK), starting with subsidiaries and distributors. The staff at Ducati dealer outlets, many of them in their late 50s and not accustomed to working with computers, often refused to use DesmoNet, although training was given. Since Ducati headquarters can monitor the use of DesmoNet by users, feedback is given if usage is too low. When running out of a certain item, it is possible to check whether a nearby dealer has it in stock, in which case the part can be transferred quickly.

The DesmoNet provides headquarters with real-time information, which serves as a basis for generating sales reports, optimizing stock, developing new services and distributing marketing questionnaires to the dealers to 'feel the pulse' of the market. Customers can use the DesmoCard to receive information from any dealer regarding their motorbike (including repairs made), as all information is stored on a computer system.

Virtual community

The Ducati virtual community is still in its early stages. The initiatives taken by Ducati.com today is limited to the Ducati Owners Club and the online auction Desmobid.

²⁷ The remaining units of the limited edition that will be produced in 2001 were sold out in the following weeks.

The Virtual Ducati Desmo Owners Club

DOC's website (ducatidoc.com) links Ducati headquarters with Ducati clubs and individual Ducatisti. At present, the website contains an introduction to DOC, information on their affiliates, rides and tours, the latest news and DOC events. It also contains an online application form and associated articles. There is no section dedicated exclusively to members. In the 'Rides & Tours' section, Ducatisti can describe their travel experiences, report on their routes and areas of interest, and post photos of their trips. A special Ducati team manages the DOC's website, plans visits

to the Ducati factory and museum, and helps organize DOC events and activities.

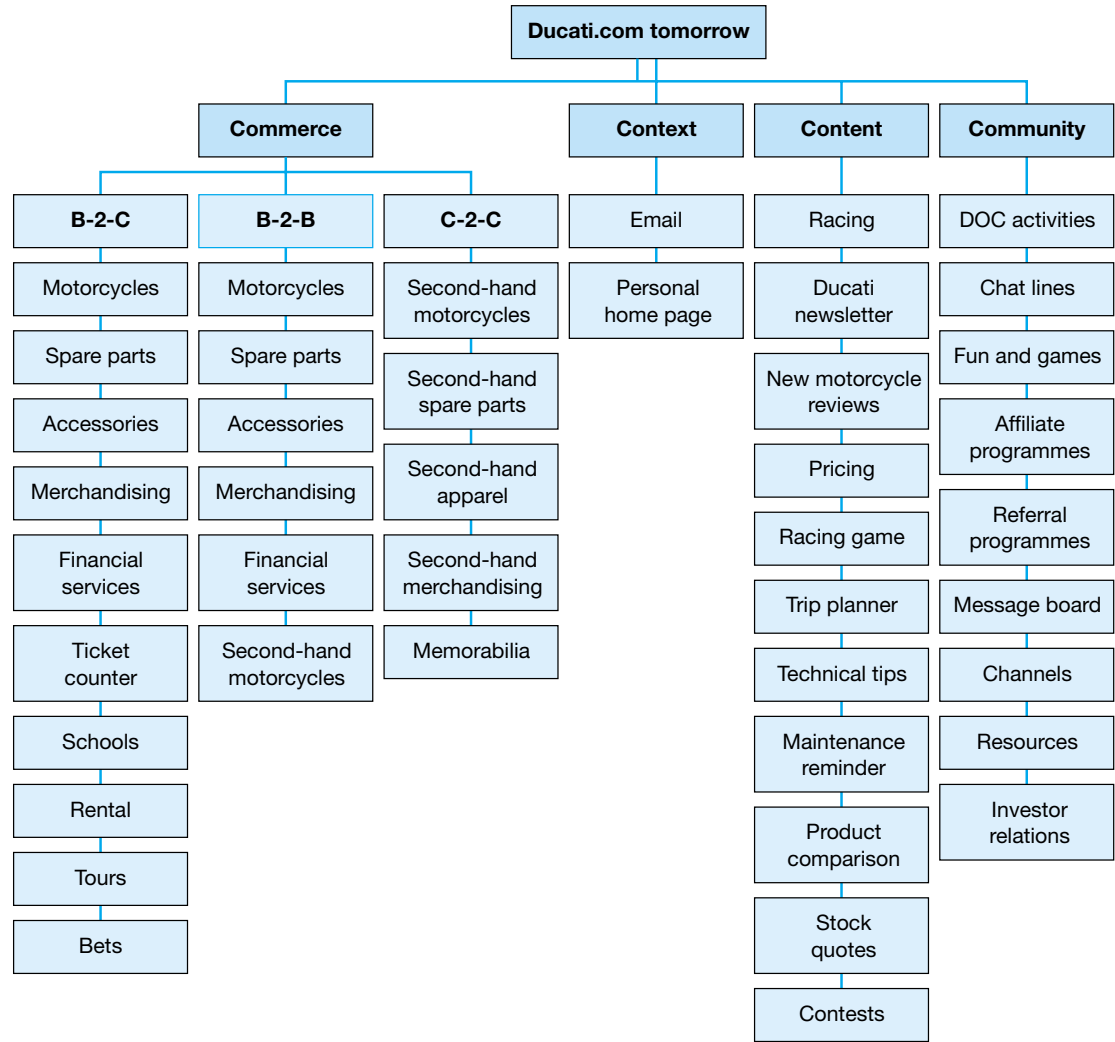
Ducati.com tomorrow

Thanks to the passionate support of Ducatisti the world over, the Ducati brand has consolidated its position as the best in the world of sports motorcycling. We see our investment in Ducati.com as the next step in the development of the global Ducati performance lifestyle.²⁸

Federico Minoli

28 Ducati press release, 6 March 2000, Bologna, Italy.

Exhibit 6 Structure of the future Ducati website



Source: Adapted from Ducati document, March 2000

Ducati.com tomorrow aims at becoming a vertical Internet portal²⁹ dedicated to the Ducati lifestyle and the world of motor racing. It is the first initiative of its kind in the motorcycle world and will be based on the four 'Cs', i.e. content, commerce, community and context (see Exhibit 6). The functions of the current website will be enhanced and new functions, such as C-2-C activities, will be added. The launch of Ducati.com tomorrow has not yet been fixed.

Ducati tries to move fast. A new division, based in Bologna, was set up as a separate unit from Ducati Motor S.p.A. dedicated to building Ducati.com tomorrow. The new venture plans to hire 15 e-commerce and Internet professionals during the start-up phase, in addition to its current staff of 15 employees.

Content

The future website is intended to build on the content delivered by Ducati.com today and to broaden its information scope. There are plans to expand the existing content with motorcycle reviews, pricing, racing games, trip planners, technical tips, a maintenance reminder, a Ducati newsletter, competitions and product comparisons.

Commerce

Ducati intends to enhance the different categories of its e-commerce applications (i.e. B2B, B2C and C2C). An important feature of B2B will be the trading of second-hand motorcycle parts. Cookies³⁰ will be used to analyse the behaviour of site visitors and derive knowledge about Ducati's markets and products. However, the integration of the e-commerce applications within the legal systems and databases constitutes an important challenge for Ducati.

Business-to-consumer

We will use the Internet to reach out to customers [whom] we wouldn't have been able to access otherwise.

Cristiano Silei

Ducati's e-commerce strategy is to use the Internet to promote and sell only limited editions of its motorcycles rather than all of its product lines. Furthermore, Ducati aims at selling services, accessories, apparel and spare parts through the Internet. Products sold online will be different from those offered at dealer outlets, in order to avoid competition. For Ducati, expensive items such as leather suits are difficult to sell through the Internet. However, they will be displayed online in

order to refer customers to their local dealer outlet, where they can try them on and buy them. Thus, the website complements the existing dealer network while providing convenience to potential customers. 'It [our Internet strategy] keeps dealers very much in the loop,' commented Cristiano Silei. 'It brings new clients to them and makes the dealers feel that they are very much part of all these business initiatives.'

The range of online financial services that Ducati provides to customers will include insurance and product financing. The company sees itself at an early Internet stage where several strategic decisions still need to be made. Motorcycle fans will have the opportunity to use the online ticket counter for buying tickets and betting on races. They will also be able to book tours and courses at the Ducati racing school as well as rent bikes over the Internet.

Business-to-business

B2B e-commerce will be done through DesmoNet. Eventually, purchasing will be electronic. B2B will have similar functions to those available through B2C, including the sales of motorcycles, spare parts, accessories and merchandising. It is expected to increase product availability. Financial services in the form of investment aids will be offered to the retail system. Furthermore, second-hand motorcycles will also be sold through the Internet.

Consumer-to-consumer

Ducati's C2C e-commerce will consist of selling memorabilia and trading second-hand items such as used motorcycles, spare parts, apparel and merchandising. Through its C2C offering, Ducati aims at strengthening its community of Ducati users and fans.

Virtual community

Through the Ducati.com virtual community, Ducati hopes to develop the company brand and attract new customers. Ducati.com will offer chat lines to its motorcycle fans, a message board, fun and games,

29 A vertical Internet portal (vortal) specializes in a particular industry or product category. It offers the Web browser personalized information and advice as well as access to a community with common interests.

30 A cookie is an item of information that is retrieved by a Web browser and that remembers specific information about a unique visitor, such as location of the last visit, time spent or user preferences.

information for investor relations, special DOC activities, and affiliate and referral programmes. Furthermore, club members can access the Ducati virtual community through the dealer channel and DOC organizers and are provided with resources in terms of dealer staff and Ducati products.

Context

Ducati.com tomorrow will offer Ducati customers and non-customers the option of setting up their own websites. In addition to having a personalized homepage, they will be able to have their own mailing system. Ducati encourages Ducati fans who set up their own homepage to collaborate with the company. Ducati can offer them access to the company logo (with the correct dimensions and colour) and customers can provide other fans with information, e.g. about their Ducati experiences.

Outlook

We hope to imbue the new Ducati.com business with all the passion we have demonstrated during the last three years.

Federico Minoli³¹

The Internet penetration rate in Italy is one of the lowest in Western Europe. As of June 1999, only 9% of the 57 million population used the Internet.³² This may constitute a stumbling block for Ducati's Internet strategy and drive towards offering additional online applications. In spite of this, Ducati plans to continue investing in its new online venture. However, special features still need to be defined. For example, should Ducati control chat-line information exchanges between members of the DOC virtual community? Should they intervene if deemed necessary? Should the launch of Ducati.com tomorrow be a gradual process, or would a 'big bang' be preferable? Can Ducati find enough skilled employees to build up the vertical Internet portal? Will Ducati turn 'Ducati.com tomorrow' into reality, or will it always remain a dream for tomorrow?

The World of Ducati has to move faster and expand, in both the physical and the virtual dimensions, as competition in terms of vertical Internet motorcycle portals has already started. Motoride.com, launched in 2000, claims to be the first portal in the two-wheel industry. The website, which was featured in major newspapers and magazines, is the result of a new ven-

ture co-ordinated by the Boston Consulting Group (BCG), Piaggio (the European leader in the motorcycle scooter industry and manufacturer of Vespa) and Deutsche Morgan Grenfell (the Piaggio majority shareholder). Motorride.com plans to offer a fully operational portal by December 2000.

While Ducati continues to consolidate its brand, selling an image and associated lifestyle, the company tries to expand the boundaries of the World of Ducati by offering motorcycle-related products, e.g. accessories and apparel. This product portfolio expansion can be done through strategic alliances and partnerships. However, Ducati will continue to focus on its core products: high-quality and high-performance motorcycles.

In order to increase sales revenues and profitability, Ducati intends to expand into new markets and further rationalize its distribution network. It aims at reducing the number of ordinary dealer outlets and replacing them with Ducati stores and Ducati corners. Ducati-owned subsidiaries are increasingly taking control of the distribution network.

Obviously, the above company initiatives raise several key issues. In order to broaden the product portfolio, should Ducati also offer accessories and apparels that are not related directly to motorcycles? What will the dealers' reaction be to Ducati's restructuring of its distribution network? Will Internet-based sales of limited edition motorcycles cannibalize dealer sales of other model lines? Will Ducati be selling accessories, apparel and all its motorcycle models over the Internet in the near future? Indeed, should it actually do this? Will the online electronic sales channel be a major threat to the dealers' *raison d'être*, despite the fact that Ducati's Internet sales are not expected to exceed 3% of total revenues in 2000? Or will the Internet prove to be a valuable source of information for customers and increase dealer sales?

Clearly, many business issues need to be addressed and strategic choices made. Ducati has just embarked on a voyage of discovery and its e-business journey promises to be a challenging but potentially rewarding one.

³¹ Ducati press release, 6 March 2000, Bologna, Italy.

³² CIA World Factbook, July 1999; InternetNews, June 1999.

QUESTIONS DISCUSSION

1. Do you think that Ducati's decision to exclusively sell through the Internet its MH900e motorcycle model was a risky decision or a safe bet? Explain.
2. Since Italy is the main market for Ducati and the Internet penetration there is one of the lowest in Western Europe, is it advantageous or adventurous for Ducati to focus its business strategy on electronic commerce? Defend your arguments.
3. Following the successful online sale of the MH900e model, what do you recommend to Ducati's top management to do next? In particular, do you think they should sell other products through the Internet? If so, how soon should they do it and what specific products should they offer?
4. 'Success in the new economy will go to those who can execute clicks-and-mortar strategies that bridge the physical and virtual worlds.'

Discuss the above statement and provide your views as to how companies can get the right mix of bricks and clicks in order to win the distribution channel war. You may consider one or more industries as a business context for your answer.