

Harley-Davidson

Growth Challenges Ahead

The Great Recession hit Harley-Davidson hard. During the fourth quarter of 2008, Harley's global sales dropped 13 percent, profits decreased by 30 percent for the year, and, over a 12-month period, its stock price plummeted 70 percent.¹ Harley had not confronted a drop in sales and profits of this magnitude since the early 1980s, when it barely avoided bankruptcy as a subsidiary of VMF. But, fortunately for Harley, it faced the new challenge with resources that it simply didn't have 30 years earlier. By 2016, the Harley bar and shield logo, a symbol of American individualism, was the 80th most valuable global brand, with an estimated value of \$5.5 billion.² The brand sold not only motorcycles, but also a wide variety of merchandise. Moreover, the Harley Owner's Group (HOG) was the largest motorcycle enthusiast organization in the world, with almost 1 million members. The Harley brand with its loyal customer base, combined with an increase in consumer confidence, helped boost sales to \$6 billion in 2015.³ Despite the recent rebound in revenues and earnings, Harley's sales were still almost \$300 million lower than they were in 2008. The challenge of flat to declining sales, even in a good economy, had Harley Davidson CEO Matt Levatich and his team concerned about whether Harley could grow during the next decade the way it had in the previous decade (see **Exhibit 1**).

Traditional riders, Caucasian men ages 35 to 74, had represented the largest portion of Harley's retail sales for many years.⁴ And, although this demographic—coming in at around 50 million people⁵—was expected to remain stable from 2013 through 2050, the baby boomers who had grown up with the Harley brand were aging, with fewer riding motorcycles each year. Moreover, many questioned whether Harley-Davidson could grow outside its traditional customer

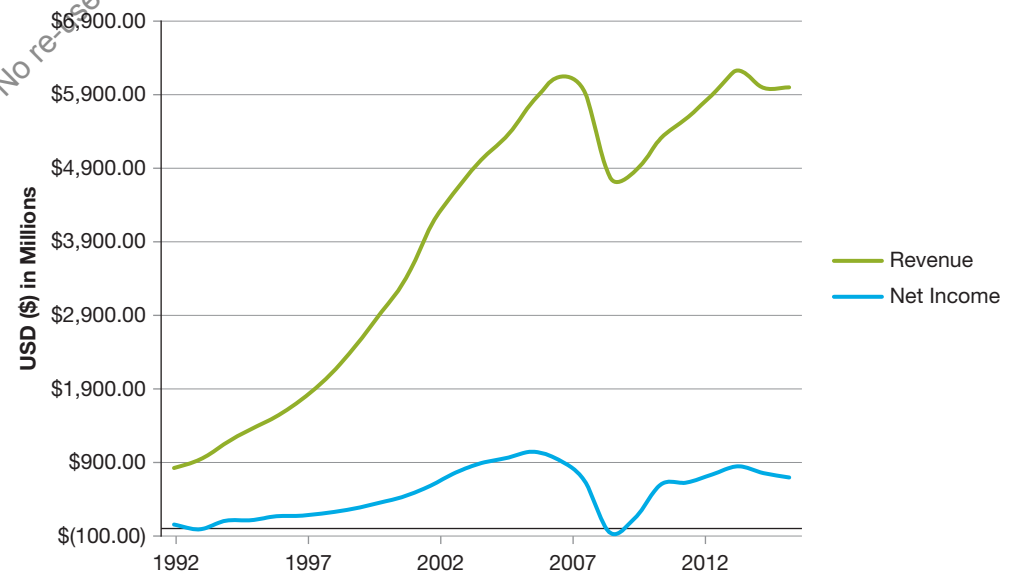


EXHIBIT 1 Harley Davidson Revenue and Net Income (1990-2016)

base. Harley had struggled for decades trying to sell to nontraditional riders, including young adults (ages 18–35), women, Hispanics, and African Americans—four groups that together are three times larger than the number of traditional riders.⁶ A survey done by Harley-Davidson revealed that young adults found the dealership experience intimidating and tended to have sticker shock when seeing the price of a Harley.⁷ Furthermore, some critics blamed the bike's reputation and size (average weight between 450 to 800 pounds) for Harley's lack of popularity among women.⁸ Investors were looking for continued growth, so they wanted to know what Harley was going to do to expand into other demographics.⁹ Likewise, they wanted to know if the American motorcycle could improve sales in international markets.

History: Born in a Shed and Raised on a Race Track

In 1901, William Harley completed his blueprint drawing of “an engine designed to fit into a bicycle.”¹⁰ Two years later, the first Harley-Davidson motorcycle emerged from a 10-by-15-foot wooden shed, and William and his colleague, Arthur Davidson, started selling the Harley-Davidson “bikes” to the public. The first Harley-Davidson motorcycle was built for speed and designed to be a racer to compete with Hendee Manufacturing Company's 1.75-horsepower, single-cylinder motorcycle, which had to that point dominated both the emerging motorcycle market and motorcycle racing sport.¹¹ On July 4, 1905, a Harley-Davidson motorcycle won its first race (a distance of 15 miles) in Chicago with a time of 19:02 minutes.¹² Other victories on Harley bikes quickly followed, and they became popular in the budding racing community.

Harley-Davidson officially entered motorcycle racing as a company in 1914, with engineer and cofounder William Harley as its first racer.¹³ William, who was a passionate competitor, was determined to win every race and so made racing performance the company's primary objective. Consequently, William and Arthur invested heavily in research and development (R&D), which allowed the company to develop new and superior features, including their own electric starter, front brakes, and standardized parts.¹⁴ The company pioneered several early industry breakthroughs, including the V-twin engine, clutch, and internal expanding rear brake.¹⁵

Not surprisingly, as Harley-Davidson's motorcycles continued to improve, the company's racing team began to fulfill William's ambition to win every race in which it competed. Immediately following each win, the team traditionally took its mascot, a pig, on a victory lap. The victory routine was popular with the racing community, and, as a result, Harley-Davidson bikes were nicknamed “Hogs” after their mascot.¹⁶ The nickname was immediately embraced, and the “Hog” label is still used to describe Harley-Davidson motorcycles.

Harley Becomes a Rebel

In 1921, Harley was the first motorcycle to win a race with an average speed of more than 100 mph and was the go-to-bike for daredevils wanting to break land-speed records.¹⁷ But, as its reputation for power and speed became more widespread, Harley-Davidson began to attract a different kind of customer—the rebel. Harley's speed set itself apart from the competition, and it began to attract customers outside of racing who also needed the fastest bikes on the market. For example, the US armed forces contracted the motorcycle manufacturer to produce motorcycles for the war effort during World War II.¹⁸ Additionally, highway patrol officers road the motorcycles during high-speed chases, and notorious biker gangs used the bike to elude police.

¹A short name often used to refer to a motorcycle.