

The strategic options available to the harley davidson organization



INTRODUCTION

This report aims to evaluate the strategic options available to the Harley Davidson organization. Harley Davidson Inc. has two operational segments, motorcycle and financing. Harley Davidson Financial Services (HDFS) offers loans, cycle insurance and protection plans to meet the needs of their owners, whilst the motorcycle segment designs, produces and markets primarily heavyweight touring, custom and performance motorcycles. It also manufactures motorcycle parts and accessories, gear and apparel. The company is the only major American producer of motorcycles and operates globally, with sales mostly in North America, Europe, Asia/Pacific and Latin America.

Although in the past the company has experienced growth and continued success, attributed to its brand loyalty, in 2009 Harley Davidson (H-D) had to shut down and consolidate factories due to the effects of the recession and the fall of the US housing market.

Strategic options can only be developed after the company's strategic position is known. Thus the first section of the report uses tools and concepts to determine H-D strategic position. In light of the company's strategic position strategic options are then formulated; this is presented in section 2. The third section of the report then uses the success criteria model presented by Johnson, Scholes and Whittington in corporate strategy, as a basis to evaluate the strategic options presented and recommendations are made.

THE STRATEGIC POSITION OF HARLEY DAVIDSON INC.

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This section of the report is concerned with understanding the strategic position of Harley Davidson Inc. in an attempt to formulate strategic options for the company. It first identifies the changes that are occurring in the environment and how these changes affect H-D and its business activities and second the resource strength and capabilities of H-D.

1. 1 THE ENVIRONMENT

In order to understand the environment which H-D operates in the following frameworks are used with the aim of helping to identify key issues and challenges and ways of coping with complexity and change.

1. 1. 1 PESTLE ANALYSIS

In 2009 H-D stood to gain from the Economic Stimulus Package, passed into legislation by the Barack Obama Administration. “ The federal stimulus package gives taxpayers breaks if they purchase a new car, light truck, RV, or motorcycle.”(Wachter, 2009). In addition, Coachman industries also a manufacturer of leisure vehicles, and a competitor of H-D was eliminated from the New York Stock Exchange.

According to the Datamonitor report “ the Motorcycle Industry segment has had economic growth for the past three years, and has only recently been experiencing decline. In 2007 it declined 2. 3%, yet is forecasted to recover 4. 3% by 2012. An economic factor in favor of H-D, despite this decline, is that the U. S. industry generated total revenues of \$10. 2 billion in 2007, of which 98. 8% were of motorcycles (not scooters, minibikes, etc.).

Furthermore, within the U. S. economy H-D holds the majority of motorcycle

sales. Therefore, even while industry growth is declining, H-D sales and other motorcycle sales are still continuing to increase.” (DataMonitor 2007). Figure 1 shows motorcycle industry growth versus sales.

11 Figure 1

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The Motorcycly Industry Council (MIC) discloses that leisure product industries are facing steep decline however the motorcycle segment though declining , is not doing so at a steep rate. Tim Buche, President of the MIC says ” Overall motorcycle sales were down 7. 2%, not nearly as sharp a decline as many other consumer products in today’s economy/” (Wasef, 2009).

Socially H-D has a competitive edge which is owed to its customer base, strong brand loyalty and demographic trends such as the increse in female operators. “ This loyalty is indicated in the average age of H-D consumers. H-D average consumer buying age is 42 years old and increasing (Gauvin 2005). H-D aspires to increse it consumer demographics, however “... although the younger generation below 35 years of age has posted the largest gains in owernship, the generation that is on the edge of the baby boomer segment will be the main catalyst of growth for the industry” (Koncept 2007).

One social factor that may negatively affect the sale of H-D motocycles is the stigma that has been attached to these leisure vehicles. Alot of people believe that motorcycles are dangerous and this belief is strengthened due to the high rate of motorcycle fatalities and crashes. H-D stands the chance

of escaping this stigmatisation if the public views their bikes as “ cruisers” and not “ speed bikes”.

Technologically H-D can take advantage of antilock brake systems. Antilock brakes could help riders avoid fatal crases according to a study done by the insurance industry.

1. 1. 2 PORTER’S FIVE FORCES MODEL

Rivalry

“ H-D operates within the Recreational Vehicles industry along with five other major competitors: Winnebago, Polaris, Thor, Arctic Cat and Marine Products. The top performers within the industry and hold 92% of the market share by volume with a market capitalization of 64. 653 Billion of a total Industry of 7 Billion” (Yahoo Finance, 2009). “ Other firms in different industries that are direct product rivals include Honda Motor Company Limited, Yamaha Motor Co, Ltd., and Suzuki Motor Corporation” (Datamonitor, 2007).

“ The presence of these large multinational corporations with exceptionally high assets boosts the degree of rivalry within the industry. Because of the small number of material rivals, the market’s revenue is shared between fewer firms and enhances the degree of rivalry for bottom line profit. This rivalry forces most competitors to try and diversify their business models through geographical expansion or vertical expansion, leading to interests and investments in a variety of other segments such as the automobile, watercraft, industrial and farming equipment areas.” (Datamonitor, 2004).

Threat of Substitutes

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“ The Recreational Vehicle industry faces threats from the Automobile Industry, from public transportation options and from Bicycles. The threat is largely dependent on the indispensability of motorcycles and other lifestyle products to the end user “(Datamonitor, 2008).

In most developed countries, motorcycles are leisure items and are not a necessity and are therefore largely dispensable or substitutable by more “ practical” items such as cars or more “ cost effective” means of transportation such as bicycles. This lack of necessity increases the threat of substitutes and is one of the major reasons why the external market goes into decline during economic recession.

Buyer Power

Overall, buyer power is low due to sustainable competitive advantage of product differentiation which is impossible for other brand competitors to match.

Supplier Power

Large multinational corporations such as Harley-Davidson can receive materials from many different international suppliers and face low switching costs due to minimal product differentiation. This presence within the international market boosts Industry leaders’ power. Overall, supplier power is moderate.

Threat of New Entrants

Overall, this threat is moderate due to high set up costs, high brand recognition, customer loyalty and high research and development costs.

1. 2 RESOURCES STRENGTH AND CAPABILITIES

Organizational Resources

HD has a formal structure that works for the company: decentralized, expert teams and leadership circles that value employee input. Programs they use to plan, report and track inventory and production include their SMS, Vibration Tech & PdM technology systems, as well as their web-based HD Distribution supplier network that provides vendors with a wealth of information about supply and demand within the company.

Physical Resources

The “ Harley Triangle” provides a basis for tracking and monitoring the firm’s physical resources. Location and Sophistication of management and the expertise of manufacturing personnel and other employees is the key in accessing raw materials, procurement and upkeep related to manufacturing equipment. HD plants are streamlined and well-maintained, which is a core resource for HD.

Technological Resources

Harley-Davidson has many technological resources: including many different brand name Patents, Trademarks, and Copyrights which protect its reputation and image.

Human Resources/Capital

Trust, Knowledge, Managerial capabilities, as well as organizational culture are HD's key, most valuable human resources. The company culture, as previously discussed, gives HD a major competitive advantage. Employees and suppliers know their input is valued and take pride in their work. People involved are passionate about the brand and this adds invisible value to the company.

Innovation Resources

Employee and supplier, as well as management's ideas are huge resources for HD, as these people know the business and know its potential. Since there are such a variety of inputs, HD's capacity to innovate and create/develop new product is not subject to stagnation or groupthink. However, HD does try to stay true to its niche market, and this creates some boundaries for innovative ideas.

Reputational Resources

Reputation with customers, brand name, perceptions of product, and reputation with suppliers are all very beneficial to HD's operations, and keep customers loyal to the product. Interactions and relationships are stressed at HD in order to ensure quality workmanship and mutually beneficial participation in all stages of production.

CAPABILITIES

Purposely Integrated Technological Resources

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HD ensures that all processes and activities throughout its value chain are integrated using web based SMS systems, barcodes, and reports that enable its JIT inventory flow. This allows production to flow smoothly.

Foundations – unique skills and knowledge of firm's employees and functional expertise

HD also ensures that its employees are trained for all aspects of their job, integrating employee knowledge in order to ease smooth flow, repairs and transitions. These employees are passionate about their jobs, and transfer that passion into their work in a functional, professional manner. HD empowers their employees, and in turn HD employees add value to the company.

Manufacturing

HD's JIT inventory pull system means that it must have streamlined manufacturing abilities. HD does this by ensuring quality inputs into its manufacturing plants, flow production methods, and well-maintained equipment. HD manufacturing plants are capable of producing many different models and base their inventory off of customer pull demand, reducing costs around the board as well as inventory finished products that sit unsold in warehouses (of which HD has very few).

Distribution

JIT inventory management needs good transportation flow logistics. HD has the capability to reduce lead times and ensure pull delivery through its

private fleet of trucks and contracts with

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distribution suppliers such as UPS.

STRATEGIC OPTIONS

Strategy 1

Harley Davidson is America's motorcycle giant. For years the baby boomers have carried the Harley brand to success but in these tough economic times have tightened the belts of America. No longer are people spending money on leisure transportation vehicles like boats, ATVs, RVs, and motorcycles. The large problem with all of these products is that they are not made for daily transportation; they are vacation and thrill vehicles. The market for buyers who can afford these products is shrinking because a buyer must have a high disposable income to buy recreational vehicles. Most buyers must already be established in society, the average age of a Harley Davidson owner is 47. 3 years old. This number has continually gone up throughout the years, even with Harley's Iron 883 bike that was a success in the younger crowd. Most Harley's have a base price of around \$25, 000 while the Iron 883 starts at around \$8, 000, which is more appetizing to the younger audience.

Harley recently announced their new market strategy that is targeting women and minorities. They are doing this to expand their market base and grow the company to help survive the current economy. The problem with part of this approach is that part of it does not fit the Harley culture. Women are either into the biker lifestyle or they are not, they tend to not have a craving to find something risky to get into that men do in the middle of their lives. This is an investment in production that may come back to haunt

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Harley. If they are to grow the business Harley, must do so without needing in to invest too much capital in new operations and production. Harley needs to go back to their core and expand by finding new riders who could become part of the biker lifestyle and culture.

Strategy 2

The Harley Davidson motorcycle has been an American icon since 1903. Harley has built one the most unique reputations within the American motorcycle business. The motorcycles have transformed into a lifestyle, rather than mere transportation. Utilizing the motorcycle's image, Harley Davidson became a market for recreational vehicles; constituting a sense of 'freedom' and 'leisure' to transportation. Often complementary to other recreational vehicles, such as motor homes, boats, ATV's, snowmobiles, etc., Harley Davidson has taken advantage of their exceptional culture and have used it to create sales.

However, regardless of Harley's reputation and heritage, an economic downturn has shown that Harley Davidson, Inc. needs to restructure their market. Financial crisis' has slowed consumer spending, ultimately leading to low sales motorcycles and recreational vehicles. Due to the economic conditions, Harley Davidson's 2008 profit fell 30 percent, decreasing shipments by 8 percent (Yahoo! Finance, 2009). The demand for heavyweight motorcycles has dropped dramatically, not only in the US economy but also worldwide.

During the first quarter of last year's quarter, Harley's worldwide retail sales decreased 12 percent while US sales fell 9. 7 percent (Clutch and Chrome, <https://assignbuster.com/the-strategic-options-available-to-the-harley-davidson-organization-essay-samples/>)

2009). A slow domestic economy then forces one to direct a focus on international prospects to open future long-term opportunities. The “American dream,” associated with Harley’s, needs to be changed to fit in other dynamic cultures to increase market size. Also, increasing market size will allow more investment in research and development to apply competitive advantages within the market. Harley Davidson already has an upper hand in terms of brand uniqueness and clearly stands out from the ordinary motorcycle. An already attractive product will allow R&D to function at an optimal rate.

Harley Davidson, Inc. currently operates internationally in approximately 30 countries. The demand in foreign countries has forced management to apply their leadership and marketing skills to international markets. The economic slump has forced Harley Davidson to restructure its international management team and outlook. More experience and expertise into a country’s culture and legal requirements are essential. A global management team needs to be comfortable and confident when operating with or in foreign countries. Understanding international business practices and ethics is a crucial quality when trying to expand. Harley needs to create country based teams that are determined to make wise cultural decisions.

Closely executing legal dimensions, geographic barriers, cultural obstacles, and investments will positively position Harley Davidson, Inc. for future prospects.

Harley Davidson, Inc.’s former CEO stated, “ International markets are a great opportunity, we need to grow them to diversify our revenue base”

(Rovito, 2009). A new CEO has been appointed and is expected to bring global and manufacturing experience. Keith E. Wandell is well attuned to international sales as well as manufacturing experience. These two qualities are exactly what Harley Davidson needs in order to reconstruct their international markets. This could be a turning point for Harley's selling approach.

Building manufacturing plants in bigger foreign markets will help relieve shipping expenses, taxes, tariffs, and will be able to accurately respond to the specialized demand. Starting manufacturing plants in other countries could create numerous job opportunities. Properly trained managers would provide a domestic leadership style that is optimally adjusted to the proper culture. Not only would this create more jobs for US management, but also generate more revenue for foreign economies as locals will be needed for production. Although a long term goal, the production of manufacturing plants would be a plausible and positive future management decision as markets expand over time.

Strategy 3

Many consumer behavior research studies indicate that consumers are very likely to purchase products that are offered as limited editions. One strategy Harley-Davidson can use in order to foster growth is to release a limited edition motorcycle, co-created by consumers as part of the promotional mix. Harley-Davidson can use this promotional strategy to get consumers involved, appeal to their desires for rarity, and increase sales.

While Harley-Davidson has released several limited edition motorcycles in the past, this promotion can be adapted into a new strategy. The new limited edition motorcycle would require the involvement of consumers to help co-create the product. Harley-Davidson's research and development department would design three different motorcycles and then they would be uploaded to the HD website. Then, consumers would be able to log on and vote for their favorite motorcycle. The winning motorcycle would then go into limited production. Those who voted would have first priority to purchase the motorcycle. Owners would then get an all-inclusive trip to the Harley Davidson Sturgis Rally. This promotion would be relatively inexpensive, yet highly effective. The designers could design the motorcycles in a way that reuses as many existing parts as possible, while still creating a unique style. This design process would lower production costs for the limited edition motorcycle.

A limited edition motorcycle release of this nature would be an effective strategy because consumers are flocking to brands that are "playing hard to get." Now more than ever, rarity is important for the high-end luxury sector, affluent 30-40 year olds, baby boomers, generation X and Y, and 'creative class' consumers (Kasriel, 2007). This trend has shown that successful selling involves building a niche market rather than appealing to the masses. The world is becoming saturated with products that are very similar to each other, and the quest for rarity has been driven by the feeling that certain products will help us to stand apart from the masses. A limited edition Harley-Davidson motorcycle is the perfect way for consumers to do just that.

Strategy 4

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HD stock price is at its lowest average price market value in years. HD working capital is constantly decreasing, while although HD cash flow is increasing on a yearly basis, they still cannot find financing to support company growth from American institutions.

With foreign operations increasing in volume, as well as capital investments and relationships with suppliers overseas HD can invest its excess cash into relationships with strategic partners in Europe and/or Asia as well as investing in and building upon relationships with franchises and other retailers in those countries. Since HD does not have the working capital to finance growth, yet they do have a positive cash flow, HD must put their excess the cash flow to work in order to generate capital.

Due to strong currency trends in these countries and weakening values of the American Dollar and an available cash flow, HD should pursue other short-term investments and long-term partnerships in the European Union and China. In this way HD can possibly augment its cash flow exponentially during the current economic recession and increase its current ratio while also increasing its working capital.

3. RECOMMENDATIONS

H-D does not have the capital means or financial structure to support future growth in the current economy. As previously stated HD is not a daily use product, but instead a lifestyle product that relies on its loyal customer base and their levels of disposable income. HD along with the rest of the recreational vehicle industry is a premium lifestyle product. The products

offered by the industry are meant to bring thrills to their owners. Harley
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Davidson's most valuable asset is their brand culture created by their strong focus on the customer. Instead of focusing on growth HD should look to sustain their brand image while restructuring their product offerings to better fit with current market demand. Harley needs to look for ways to keep business operations running without betraying the brand legacy they have built. With their current loyal customer base aging, the average age of a Harley rider is over 47 years old; HD needs to focus on a product differentiation strategy that falls under its current capacity for production. The biggest future problem Harley Davidson faces is a lack of capital to run business operations. They must be conservative about expenditures while finding the right places to invest and push their products. The customer is king for HD and operations need to continue to reflect that.

CONCLUSION

Currently HD is in the middle of a restructuring process for their production systems. After this is complete HD needs to find the production capacity level that fits the movement of products in the market. HD has created an atmosphere of customization and individuality for its riders. Limited edition motorcycles have been a hit among the riders. They are quick to sell out in stores or auctions. Coming out with these lines creates a buzz for Harley Davidson that no commercial or advertising campaign can because people want to get their hands on these exclusives. This also allows HD to use the assets they already have instead of investing to create new ones. Other Assets Harley has that are underutilized are their rider training courses and trip planning accessories. The training courses eliminate the intimidation that may come along with the HD culture and allows newcomers to become

familiar with the new smooth riding bikes in HD's arsenal. This must continue as each rider has their own personal style.