

Harley-davidson - a name recognised all over the world

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Harley-Davidson is a name recognised all over the world as an icon of the American lifestyle and the American Dream (Davidson, 2002). It is an example of motivation, perseverance and commitment to a dream of freedom to choose to be and do whatever one desires (Davidson, 2001). The objective of this report is to analyse the current market situation for motor cycles in Sri Lanka and identify if Sri Lanka is a suitable market for Harley-Davidson to make its entry into.

Firstly, this report will analyse the present market in Sri Lanka by the use of PESTLE and an industry analysis would be done using Porter's Five Forces. Secondly, an internal analysis will be done to identify the strengths and weaknesses in the market while identifying the key opportunities and threats for Harley-Davidson entering into the Sri Lankan motor cycle market. Finally, recommendations would be made to understand the suitability for Harley-Davidson to venture into the Sri Lankan market. Harley-Davidson originated in Milwaukee, USA in 1903 (Harley-Davidson, 2015). The company was known mainly for the production of motor bikes until the early 1980s and thereafter extended its product line from only motor cycles to motor accessories, motor clothes, toys, financial services, fragrances, jewellery, gifts and collectibles (Fessler, 2014).

Following a management led leveraged buyout in 1981, Harley-Davidson once again began to reassert its dominance in the large-bike market in USA, which was led by Honda at that time, increasing its market share for the largest bikes from 23 percent in 1983 to 60 percent by 1990 (Kew and Stredwick, 2005). The market share in Europe stands at 15% (Forbes, 2014)

and in the Asia Pacific region, Australia, New Zealand, China and India posted their best years in sales while Harley-Davidson claimed the number one market share position in Japan (Harley-Davidson, 2015). Harley-Davidson has more than 1460 independent dealerships in more than 90 countries (HarleyDavidson, 2015). They are known to have continuously improved on their financials year by year in the past five years and ended 2014 with a net income of 844 million US dollars (Market Watch, 2015).

PESTLE Analysis

Basu (2009, p. 99) states that “ The PESTLE (Political, Economic, Social, Technical, Legal and Environmental) analysis is an analytical tool for assessing the impact of external contexts on a project or a major operation and also the impact of a project on its external contexts. An analysis of the PESTLE factors which would impact Harley Davidson’s entry into the Sri Lankan market would be discussed below.

Political-Legal Environment

This factor takes a look at how government regulations and legal issues affect a company’s profitability and success (Arline, 2014). Furthermore, this implies that the issues which should be considered include tax guidelines, copyright and property law enforcement, political stability, trade regulations, social and environment policy, employment laws and safety regulations. The import of high powered motorcycles was permitted only for sports activities and training purposes but the Sri Lankan government has removed the

restrictions and legalised importing of motorcycles with engine capacity ranging from 450c up to 1001cc (The Sunday Times, 2014).

These bikes need to be registered under the provisions of Motor Traffic Act and prior approvals need to be obtained from the Defence and Urban Development Ministry (Marasinghe and Range, 2014). The government reported that a ban on full-face helmets will be imposed but this was met with mixed feelings from the public and protests were held by motorcyclists rejecting the ban (Sarathchandra, 2015). This similar scenario occurred back in 2013 but was temporarily suspended (News First, 2013).

Economic Environment

This factor examines the outside economic issues such as economic growth, exchange, inflation and interest rates, economic stability, anticipated shifts in commodity and resource costs, unemployment policies and credit availability that assist in the company's success (Arline, 2014). Sri Lanka is a country with a population of 20.67 million (Department of Census & Statistics, 2014). It has a labour force of 8.55 million above the age of 20 years out of which 5.75 million are male (Department of Census & Statistics, 2014) which is the general target market of Harley-Davidson. Also the unemployment rate of Sri Lanka is at a low of 4.4 percent (The World Bank Group, 2015).

Inflation, decreased to 0.1 percent on a year to year basis in March 2015 while the annual average inflation for Sri Lanka in March 2015 was 2.5% and has been on a downward trend from the beginning of the year (Central Bank

of Sri Lanka, 2015). According to the Central Bank of Sri Lanka (2014), the GDP growth rate had increased from 6.3 percent in 2012 to 7.3 percent in 2013. The rise in these factors would mean that the purchasing power of the people increases.

Social & Cultural Environment

The demographic and cultural aspects of the company's market is analysed through this factor by examining the population growth rate, age distribution, attitudes toward work, job market trends, religious and ethnic beliefs, lifestyle changes and educational and environmental issues (Arline, 2014). According to the Department of Motor Traffic (2013), at the end of July 2013, Sri Lanka has 2.6 million motorbikes in the region out of the 5 million vehicles owned which has been a continuous growth in the past few years. In Sri Lanka, motorcyclists comprise a majority of road-traffic victims which is a common fact in most low-middle income countries (Sarathchandra, 2015).

Technological Environment

This factor takes into consideration technology issues which affect how the company delivers its products and services to the market and specific areas such as technological advancements, government spending on technological research, the role that the internet plays and the potential information technology changes need to be considered (Arline, 2014). Kotler et al. (2012) states that in marketing to the "Kool" generation, Bajaj Scooters redesigned their scooters and launched new models under the brand names of Spirit,

Bravo and Legend which was aimed at changing its image of a family bike to that of a contemporary and stylish brand appealing to the youth of both genders.

50 percent of Sri Lanka's tyre requirement is produced locally through CEAT Kelani Holdings which has three manufacturing units in the country and produces tyres for trucks, 3-wheelers, motorcycles and passenger vehicles (Ceylon Today, 2013). 20 percent of the market share for motorcycle tyres has been through CEAT Kelani Holdings and are selling 13500 motorcycle tyres per month (The Sunday Times, 2014). It further states that the company produces tyres for most of the popular models of motorcycles in the country irrespective of the brand. David Pieris Motor Company has the largest manufacturing complex in the country and assembles a wide range of fuel efficient motorcycles for the Sri Lankan market which has a reputation for high performance and low cost maintenance (Daily News, 2014).

Ecological Environment

With a high level of focus on the environment, including increased focus on the ethical standards, there is increasing pressure on companies to industries on how they should act (Faarup, 2010). This further states that the ethics and morale of the company are included in the criteria of choice when customers select products, brands and services. Vehicles including motorcycles with modified silencers and horns which exceed the sound levels that generate noise pollution have been warned that action would be taken by the local Authorities (The Sunday Times, 2013). With the

introduction of electric bikes, which fall under the motorcycle and scooter category, Sri Lanka's automobile sector is seen shifting into the green-focused market (The Sunday Times, 2014).

Porter's Five Forces

Michael Porter has defined five forces which drive industry competition and has described a valuable approach to assessing the overall competitive dynamics of an industry (Colley, 2007).

Threat of new entrants

As Petzer et al.(2006) explains, competing organisations entering into the industry and its markets are known as new entrants and are considered a threat since more competition is built up for the organisations in the market. It further states that the threat of new entrants depends on the barriers to entry into the industry and its markets. At present there are no barriers which are laid for the entry of a motorcycle company into Sri Lanka and there are no strong competitors in the prevailing market.

Threat of substitute products

The products of different businesses or industries that can satisfy similar customer needs and if the price is too high, the customer could switch to the substitute (Hill, 2011). According to the Department of Motor Traffic (2013), at the end of July 2013, Sri Lanka has 2. 6 million motorbikes in the region out of 5 million vehicles owned. It is evident that a continuous increase in motorcycles could be noted over the past few years and the fact that the

motor cycle market is rapidly growing compared to motor cars and three wheelers.

Bargaining power of buyers

The power which customers have to make suppliers in the industry reduce prices and improve or expand the features of their products and services is known as the bargaining power of the buyers (Petzer, 2006). The customers bargaining power will be low since there are no similar products like Harley Davidson in the Sri Lankan market.

Bargaining power of suppliers

Organisations need suppliers to equip them with raw materials and parts they need and the cost of these raw materials and parts affect the amount of profit which the organisation makes. Thus, if there are not many suppliers who can offer the same raw materials or parts, the bargaining power of the supplier becomes stronger and the organisation has to accept the terms that the supplier sets (Petzer, 2006). The supplier could be same as that of the Indian market in which the current 13 authorised dealers are the closest to Sri Lanka.

Intensity of rivalry among competitors

Rivalry refers to the competitive struggle between companies in an industry to gain market share from each other by the use of pricing, product design, advertising, direct selling and after sales services (Hill, 2011).