

Harley-davidson's strategic position



Abstract

Identifying Harley-Davidson's strategic position in the industry and the market place can prove to be extremely difficult. Harley-Davidson has a long history as a motorcycle manufacturer and is largely seen by many as a reputable 'all-American' brand. However, through the combination of internal and external events, Harley-Davidson are gradually losing market share to Japanese manufacturers such as Yamaha, Honda and Suzuki. Through the use of key strategic tools and models, we can gain a deeper understanding of what the organisation needs to do in order to up their game.

Through the application of models such as Porters Five Forces, PESTLE, CAGE, SWOT, Ansoff matrix and Boston Consulting Group matrix, we are able to provide several viable strategic options that Harley-Davidson could adopt in the future.

The study concluded that the organisation should expand their product development, focus on the branding of the company, re-structure their supply chain and attempt to gain an increased market share in European countries.

Industry Analysis

Mintel (2010a) indicates that between 1998 and 2008, motorcycle and scooter ownership grew at a faster rate in comparison to car ownership. Over the decade, the number of motorcycles in consumption rose by 71%, while the number of cars only increased by 24%. In order to consider the strategic capabilities that Harley-Davidson has in place, it is important to analyse the

industry in which they operate in; paying particular attention to recent trends. Due to the current economic climate, the motorcycle and scooter industry has been seen by many as a highly competitive industry to operate in. In 2009, the global industry was valued at \$50billion (Moya, 2009). Figure 1 shows the market share of the motorcycle and scooter industry in the UK. There are three key players that share the vast amount of the market, none of which are Harley-Davidson¹

The External Environment

When performing a strategic analysis, it will be of benefit to look at the external environment concerning Harley-Davidson, with current issues; threats and opportunities highlighted with possible choices revealed as an outcome. PESTLE and Porter's Five Forces

PESTLE is a particularly useful model in establishing the issues that companies face in an industry and the effect it can have on certain organisations. Coupled together with Porter's five forces it means that a broad yet in depth analysis for the industry can be used

Threat of entry, Political factors and Legal factors

The threat of entry determines how easy it is for other potential competitors to enter the industry; in Harley-Davidson's case it remains fairly low.

Economies of scale are essential for the automotive industry. Once Harley-Davidson had established themselves in the market and established distribution channels, it therefore made it easier to operate large scale production. Threat of entry is fairly low in terms of administration; as there are little legal or government restraints in operating a motorcycle company.

The main political issues that Harley-Davidson faced are the import/export rates on their products. Import taxes have both advantage and disadvantage for the company. By petitioning the restriction of Japanese models coming into America in the 1980's it meant they had more leverage over other competitors and could "compose" itself in the American market once again (Harley-Davidson, 2009b). However, the recent move into India has raised more political barriers; not in Harley-Davidson's favour. By establishing a 100% import tax, the cost of the bikes for the market will be too much for some. Harley-Davidson have ambitions to enter the Chinese market, however currently face Chinese political issues as motorcycles are prohibited in 170 of its cities and obtaining a motorcycle licence costs time and money (Goodman, 2008).

Linking with legal issues, Harley-Davidson have less control over certain matters. The age restriction on riders is 17, coupled with the legal requirement for a motorcycle licence. Additionally, the motorcycle must be maintained; have an MOT, tax and the rider must wear a helmet (Direct. gov, 2010). Therefore, those wishing to enter the market face the same legal requirements as Harley-Davidson and have to follow the same processes.

There is little that Harley-Davidson can do in terms of preventing competitors entering the market or changing political issues. In response, it is important that Harley-Davidson strategise around this, ensuring that their products remain cost effective to over shadow entrants; consequently if they enter China, they will have established a "value for money" reputation before selling to the market adopting the same strategy with its market in India.

Economic issues, competitive rivalry and power of suppliers

Economic issues have particular resonance with competitive rivalry and the power of suppliers. Rising fuel prices will affect both Harley-Davidson their suppliers and Harley-Davidson's competitors (Massey, 2010). Competitive rivalry is high in this industry. Because motorbikes are often seen as a "luxury", pricing the products can be sensitive. Harley-Davidson for example are offering spare parts, extended warranties, environmentally friendly and innovative products to distinguish themselves from competitors.

Again, economics and competitive rivalry are brought together on the issue of super-bikes. Because of Japan's successful movement in this market, they have established a strong place in a competitive sport and priced their products cheaply in accordance. It therefore affects the customer's perception of Harley-Davidson's place in the motorcycle market, as well as their pricing policies. However, those having a predominant place in this sport do have conflicting interests, i. e. Yamaha and Honda have diversified into musical instrument and other motor vehicles, in effect distinguishing Harley-Davidson as a loyal and specialised motorbike manufacturer.

Economic issues can also have an effect on Harley-Davidson's power of suppliers. Harley-Davidson have control of their suppliers and therefore the power of suppliers is low in this industry. If costs rise, Harley-Davidson have the position to switch and have more room to negotiate.

Social and buyer power

The motorcycle industry's social issues have a particular correlation with buyer power, which itself poses a fairly high threat to the motorcycle industry. There are relatively no switching costs when it comes to moving to <https://assignbuster.com/harley-davidsons-strategic-position/>

and from Harley-Davidson. In Harley-Davidson's case, the company have recognised the customisation market; buyers have less power in changing to a competitor if they wanted to customise their bike.

It can be argued that Harley-Davidson's core competency is its loyalty and membership to the brand. The company have had significant success in attracting members, acquiring more than one million members world wide (Harley-Davidson, 2009d). Their history and brand are well known, establishing themselves as a cool, 'rebellious' motorcycle manufacturer, with endorsements by Marlon Brandon and Elvis (Jagger, 2008), however Harley-Davidson's brand value has dropped by 43% (Pravda, 2009).

Buyer power can come into play when considering social issues concerning safety of motorbikes. Government reports state that motorcyclists are more likely to be injured (Intel, 2008). Keeping this social issue in mind, buyers may choose a company that focuses on the safety of its products.

Environmental issues, technology and the threat of substitutes

The threat of substitutes can affect buyer behaviour. The threat here remains quite high due to the substitute of the car market. There is of course another alternative, as there is a high level of pollution damaging the environment, people are choosing to use buses, trains etc. Harley-Davidson are therefore attempting to reduce the risk of substitutes by playing a bigger part in helping the environment. Harley-Davidson have produced an environmental warranty and have signed up to the One Clean Up Program, (York Site Remedy, 2005). This could therefore mean that people are less likely to change to substitutes based on environmental issues. Harley-

Davidson's purchase of Castalloy in 2006 supported their dedication to the environment (Porter, 2006), as Castalloy had been protected by environmental risks by the Australian Government (BNET, 2006). By also developing their technology to run on zero emission electricity, Harley-Davidson and others have developed their product portfolio (Anupam, 2009).

This development in technology has also had significance on the power of substitutes. Designing Harley-Davidson's bikes in a certain way, they are again able to attract customer's loyalty to the brand. Anti-lock breaking systems and 'clutchless' transmissions are beginning to be developed by Harley-Davidson and other competitors (Mintel, 2010a). Coupled with this, Harley-Davidson have prided themselves on having a "distinctive sound". As a result, the company have trademarked this using Noise Vibration Harshness technology (BNET 2002).

PESTLE's main task is to provide context for the industry that Harley-Davidson is currently in and gives a well rounded view of the external environment as well as giving an idea of Harley-Davidson's threats and opportunities it does however constant up-dating to remain effective. The PESTLE has revealed that Harley-Davidson's future success may lie in its product development. By developing its technology to justify its purchase as well as meeting environmental demands, Harley-Davidson may be able to remain successful in the market. However, it also warns the company that it must be cautious economically, taking a cautious approach to the market.

Coupled with Porter's Five Forces, it provides the framework aimed at other competitors and buyers in the market. Although it gives an overall outlook of

the industry's characteristics that could affect Harley-Davidson, it fails however to identify options that Harley-Davidson could take, only the problems that are currently occurring. The model has identified however that their strategic movements should remain in the branding of the company. By focusing on their branding and reminding people of the company, Harley-Davidson are able to stay ahead of competitive rivalry and substitutes, decrease buyer and supplier power and make it more difficult for potential companies to enter the market

CAGE, Opportunities and Threats

Relating to the external factors affecting Harley-Davidson, the method in which the company deal with other countries as well as their outside opportunities and threats can be coupled together to identify outside issues.

Cultural distance, opportunities and threats

Being an American brand, it has in a sense distance itself from other cultures in the branding and image that it portrays. However, Harley-Davidson has had reasonable success overseas (New York Times, 2001). Its threat is through the customer's perception of Japanese manufacturing to have superior quality. Honda, Suzuki and Yamaha continue to dominate the market by appealing to all consumers, and pricing their products competitively and within the consumer's budget. Not only in pricing, but Japanese bikes surpassed Harley-Davidson in terms of technology and quality (Masker, 2007).

It could be argued that women riders could fall into a different culture. Harley-Davidson themselves have created a specialised culture which focuses mainly on a certain image of male riders. Therefore, Harley-Davidson

<https://assignbuster.com/harley-davidsons-strategic-position/>

may see a great opportunity by focusing on the female and youth market. Additionally, the environmental culture existing globally means that Harley-Davidson have the opportunity to focus on presenting itself as a caring company, closing the gap between cultures and as a result increasing their market.

Administration and political distance, opportunities and threats

One threat toward Harley-Davidson was and are Japanese imports. By 1988 Harley-Davidson stated that the tariff imposed on Japanese motorcycles had helped them to become more competitive and “re-strategise” (Feder, 1987). Harley-Davidson had the opportunity in this instance to accept assistance from Japan; this was subsequently refused causing further political distance between the two countries (Helnen, 1983). Therefore opportunities in this area may include possible alliances with other automobile manufacturers. Harley-Davidson had tried strategic alliances in the past, i. e. with AMF and MV Agusta Group. They did prove however to remove focus from the Harley-Davidson brand and strategy. Consequently any future alliances would have to adopt the same strategy in order to work together.

Harley-Davidson's overseas sales performs particularly well in Japan, however China “represents its biggest opportunity”. Harley-Davidson's chief executive states that their products are likely to have great appeal and success in China. Its threat at the moment however is Chinese legislation. However, by navigating around and providing any influence to change this, Harley-Davidson may find a lucrative market emerging. Harley-Davidson's move into India signifies a new wealth and market for the company.

However, again with political and administrative distance, it seems the same pressures Japan went through in the 1980's are now mirrored.

Geographical distance, opportunities and threats

Harley-Davidson's production facilities remain in America; however support for their strategic operations function in countries such as; Europe, Brazil and Japan (Harley-Davidson, 2004). This has been in large part to the improving transport links, enabling parts to be shipped from all over the world (Wisconsin School of Business, 2009). It is this advantage however that is posing a threat to the company. Competitors are now able to transport their products with little difficulty despite geographical distance; it therefore means that Harley-Davidson are competing in all possible locations.

Economic, opportunities and threats

The move into the Indian market has raised questions on if the particular product will sell. The bikes are selling at a roughly 14% of the average yearly income of an Indian worker. This poses a significant threat for the company; will the Indian worker be able to afford this?

Consequently, economics can be applied to its American consumer. Harley-Davidson research has found that the median income of its purchasers has risen (Harley-Davidson, 2007). However, due to the recent global economic crisis consumers are becoming more cautious with their money, all threatening the Harley-Davidson company. Combined with rising petrol prices, consumers are less inclined to spend their money. However, the cost of running a motorcycle or scooter is significantly cheaper and therefore creates a growing opportunity for Harley-Davidson to "covert" car drivers globally to buying their products.

Overall, the CAGE model gives Harley-Davidson an idea of the global issues it may face as well as possibly identifying issues that are occurring in the company's country of origin. Its obvious disadvantage being that it focuses globally, missing out potential problems closer to the industry. Combined with opportunities and threats of SWOT analysis, the CAGE model was able to identify where it should move with its strategy. Overall, both models established that its best strategic option may prove successful by again focusing on its brand. Due to the popularity of Western products all over the world, Harley-Davidson may have success in emerging motorcycle markets such as in India and China. Additionally, by moving their production and suppliers to America, (with careful economic and monetary consideration) this may prove more substantial to Harley-Davidson's branding, by promoting itself as an all American motorcycle company.

The Internal Environment

Ansoff Matrix

Due to high levels of competition from other companies within the motorcycle industry, Harley-Davidson may want to adopt an alternative direction for strategic management. An Ansoff matrix (figure 4) provides one with the ability to analyse and evaluate different strategic approaches that they may wish to implement.

Market Penetration

Despite the fact that in 2009 Harley-Davidson occupied 57. 8% of the US motorcycle and scooter market (Powesports Business, 2009), in the UK, they only managed to occupy 4. 5% of the market (Intel, 2010b). Due to their exceptional reputation in the industry and the power of the Harley-Davidson

brand, it is possible for the company to gain further share not only in the UK, but other existing markets such as Asia and India. Currently, due to riding restrictions in larger cities, Harley-Davidson are slowly managing to gain market share in China (Ang, 2006)

Additionally, in June 2010 Harley-Davidson is to introduce a total of twelve motorcycles from its portfolio to India (Yogesh, 2010).

Product Development

Recent statistics have illustrated that women are beginning to purchase motorcycles, for both pleasure and sporting reasons and Harley-Davidson are responding. For example, the Harley Davidson Fit Shop personally customises motorcycles to accommodate petite frames (Harley-Davidson, 2010a). Additionally, in 2008 Harley-Davidson set up the Women's MDA Ride (Harley-Davidson, 2010b).

With celebrities such as Bruce Willis, Brad Pitt and Vin Diesel riding Harley-Davidsons, the brand and image attached to riding a motorcycle has begun to appeal to the younger generation. Mintel (2010b) demonstrates that a high proportion of 16-24 year olds are drawn to the idea of owning a motorcycle or scooter. In 2007, the company began to recognise the need for their products to appeal to the younger generation. In response, they employed Rich Christopher, who would design the Harley XL 1200N Nightster, a bike that “ had enough attitude to lure younger riders” (Patton, 2007). Nonetheless, it must be said that the majority of individuals that fall into the above age bracket, have student debts attached to their names and a financial inability to pay for a bike on finance, thus making purchasing a

Harley-Davidson not always possible. Furthermore, Moya (2009) indicates that high youth unemployment is keeping many first-time riders out of the market. In an attempt to successfully target the younger generation, Harley-Davidson could provide a financial scheme for young riders or graduates, whereby interest rates are low and affordable.

Market Development

In 2009, Harley-Davidson announced their plans to enter into the Chinese market. Through their alliance with Zongshen Motorcycle Group, they are looking to overcome potential obstacles present in trying to break into the China (Motorcyclist, 2009).

Diversification

In terms of diversification, one could argue that Harley-Davidson were successful in introducing clothing and accessories to their product portfolio. However, on the other hand it could be said since the clothing is only suitable for motorcyclists (a market that already exists), there is no diversification. In response to the latter, Harley-Davidson could follow in the footsteps of Yamaha who also produce musical instruments, audio software and hardware etc. Nonetheless, this is not to say that they should produce musical equipment. Due to the virtual world being the 17th biggest economy in the world, it may be viable for Harley-Davidson to enter into the gaming industry, maybe introducing computer games to their product range (Turban et al, 2008).

Through the implementation of an Ansoff matrix, Harley-Davidson are able to analyse the various strategic options that they can take in terms of product and market development. It could be argued that as a model it is able to

<https://assignbuster.com/harley-davidsons-strategic-position/>

provide an internal perspective on the company in terms of its resources and capabilities available; as well as providing an external outlook on the industry as a whole and looking to see if there are gaps in the market or potential for growth. However, despite the fact that it looks into the industry, it fails to specifically evaluate the position of other companies that provide intense competition.

After consideration, one could recommend Harley-Davidson to concentrate on ‘product development’, whereby a range could be introduced to women and the youth. If they are successful in implementing this development, they could potentially be a leader in the market providing a niche that competitors fail to recognise.

Strengths and Weaknesses

Figure 5 provides a SWOT analysis of Harley-Davidson. It uncovers that one of Harley-Davidson's strengths is brand loyalty. Company executive Matt Levatich indicates that “without the dedication of the riders to Harley, we wouldn't be here today” (Mattice, 2008). The Harley Owner's Group (HOG) has members in excess of 295, 000 members, and 900 local chapters (Smith, 2008)

With a network of over 1, 300 dealers, in 60 countries (Goodsall, 2009), Harley Davidson has a widespread dealer network. Being present in a varied range of markets and operating through such a large and loyal network can be considered as a strength for the organisation. Additionally, value is added into the Porter's value chain as it allows Harley-Davidson to keep costs such as administration to minimal amounts.

Much of Harley-Davidson's success can be attributed to their wide product portfolio. Currently, their product portfolio is composed of motorcycles, accessories, clothing, merchandise, GPS navigators just to mention a few (Harley-Davidson, 2010c). The Boston Consulting Group (BCG) matrix (figure 6) can assist Harley-Davidson in effectively managing their product portfolio, ensuring that product and strategic management is upheld. The model analyses the separate business units, in relation to two key variables; market share and market growth (Johnson et al, 2008).

Harley-Davidson currently operates in 60 countries worldwide. By operating domestically and internationally not only are Harley-Davidson able to gain access to larger global markets, but they may also be able to benefit from the economic differences in exchange rates. At present, the American Dollar is relatively weak in comparison to other international forms of currency, for example the Euro and the Yen. As a result, Harley-Davidson would be able to produce their products in America, but sell in international markets.

To many, Harley-Davidson can be classified as a luxurious product, whereby quality and design trumps price. Not only does this strengthen the brand name and customer association with the company, but it also allows profit margins to remain high. For the year 2009, the gross profit margin was 31% (Google Finance, 2010). Nonetheless, this has not always been the case. Just after American Machinery and Foundry bought the company in 1969, it began to experience lower levels of quality, which was partly due to streamlined production and a reduction in the workforce. Japanese motorcycles were proving to outperform Harley-Davidson in terms of quality (Masker, 2007).

As highlighted in the SWOT analysis, it is apparent that Harley-Davidson's main weakness is its ability to gain substantial market share in European countries. However, this being said as you can see in figure 1, Harley-Davidson is gradually increasing market share in some European countries, for example the UK. Moreover, through international dealer networks and improved marketing programs, sales and profit margins are progressively rising (Fredrix, 2007).

The 'bad-boy' image that is generally associated with motorcycles can be seen by some as a weakness to the company. Additionally, despite the fact that the company plays no part in organised crime, the creation of the 'Hells Angels Motorcycle Club' (HAMC) could pose a negative relationship between organised crime and Harley-Davidson; an unwelcoming association. It is reported that members of the HAMC implement wide-spread violence (Federal Bureau of Investigation, 2000). Finally, the dangers coupled with riding a Harley-Davidson can be seen as a weakness. In the UK in 2008, a total of 6, 049 individuals were either killed or seriously injured after being involved in a motorcycle accident (Department for Transport, 2009a).

Furthermore, despite only contributing 1% to total traffic, motorcyclists make up 19% of deaths on Britain's roads (Department for Transport, 2009b).

By looking at the strengths and weaknesses of the company, Harley-Davidson are able to gain a brief understanding of their internal core competencies and flaws. The SWOT is able to identify a certain criteria that can be analysed further. This can be demonstrated with the 'wide product portfolio' point that is accessed further through the implementation of the Boston Consulting Group matrix. However, it only provides a very basic

insight into the strengths and weaknesses of the organisation; for this reason, pairing it up with another tool(s) will prove to be effective.

In consideration, it would be worthwhile for Harley-Davidson to look into ways as to how they can effectively gain market share in European countries. As mentioned earlier, in Europe they are far from becoming the leader in the motorcycle and scooter industry. It could be suggested that through the implementation of a SWOT analysis and an in-depth CAGE analysis, the organisation could present the European market with a distinctive offering.

Evaluation

Strategic options that Harley-Davidson could look into or adopt;

- Expand their product development – looking at developing their technology, especially environmental demands. However they need to be cautious of economic pressures that face the company and their market.
- Expand their product development by targeting the younger and female market.

Harley-Davidson could therefore face a paradox; global vs localisation;

- Focus on the branding of the company, emphasising its unique product range and American heritage.
- Moving their supply chain entirely to America, promoting its American culture. Nonetheless, costs should be considered before implementing this option.

- Look further into gaining market share in European countries, as well as developing countries. meday build motorcycles overseas'. JS Online. [Online]

Harley-Davidson, An All American Brand?

Origins of an American Brand

There aren't many people in the World that would tattoo a companies logo onto their arm for, however for Harley-Davidson there are. In later years it would see Harley-Davidson distance itself from others to focus on this brand. For motorcycle enthusiasts, the words Harley-Davidson may invoke visions of freedom, independence and the open road, it also symbolised patriotism to America and its citizens. In 1903, William Harley and three brothers, Arthur Davidson, Walter Davidson and William Davidson, founded Harley-Davidson. It was also at this time as to when the first Harley-Davidson motorcycle was produced. Three years later, Harley and the Davidson brothers built their first factory on Chestnut Street. Over the years, Harley-Davidson's success would continue to grow with the production of sidecars and single and twin cylinder models (Harley-Davidson, 2010d).

In 1910, the Harley Davidson logo was used for the first time, which would represent quality, diversity and value, characteristics that are still in existent today. Currently there are over 1, 300 dealer networks operating in a total of 60 countries (Goodsall, 2009). The outbreak of World War One saw Harley-Davidson make a valiant contribution to the war effort (Zuberi, 2006). It is estimated that 20, 000 motorcycles were used by the U. S. military, the majority of which were Harley-Davidsons. In 1941, when America entered the Second World War, Harley Davidson continued to provide support to the war

effort, which as a result saw them being awarded an Army-Navy “ E” Award for excellence in war time production (Harley-Davidson, 2010e). The company proved itself competitively and resourcefully during this time. Harley-Davidson were able to cease trading and provide vehicles to aid the war effort, the result of this meant that Harley-Davidson had a strong reputation based on “ quality and reliability” the same quality that was to be questioned in later years (Nimwegen and Kleiner, 2000).

Branding

Films such as Easy Rider, and Hollywood icons including Steve McQueen, Marlon Brando and Elvis Presley, made Harley-Davidson be seen by many as a cultural icon, which attracted customers who loved “ its bad-boy mystique, powerfulness giving Harley-Davidson valuable marketing and a distinctive clientele coupled with its rumbling voice, distinctive roar, and toughness” (Schinwald, 2005) a sound which they would later trademark, made Harley-Davidson stand out from the rest. The 1940’s and 1950’s brought in a new era for the motorcycle industry and saw Harley-Davidson strengthening its brand image and membership loyalty. Its brand ever more poignant in people’s minds and perception, it was of no surprise that it was celebrated on Harley-Davidson’s 50th birthday with a new logo being created (See Image 1). The birthday celebrations didn’t stop there. Harley-Davidson’s only American motorcycle manufacturer, the creator of the ‘ Indian’ motorcycle left the market and more importantly, it left Harley-Davidson as the sole US motorcycle manufacturer, a triumph that would last until the late 1990’s (Harley-Davidson, 2009e).

In 1969, American Machine and Foundry (AMF) a producer of leisure products bought Harley-Davidson, increasing their production by 300%. However, its partnership would later spark rumours of AMF failing to ensure quality was maintained throughout their takeover and eventually saw Harley-Davidson going back to its origins (Nimwegen and Kleiner, 2000).

In 1977, Harley-Davidson faced controversy in a political sense. The notorious and oddly forgotten ‘Confederate Edition’ motorcycle pulled at political strings in a big way. Factors such as a dull coloured motorbike compared to Harley-Davidson’s previous flashier models and its Southern Cross flag not only alienated African-Americans as a reminder of slavery and oppression, but seemed to be an anomaly in Harley-Davidson’s portfolio (MacMahan, 2009).

A fresh start

The 1980’s saw Harley-Davidson entering a distressing period in their time in business, posing bigger threats than two World Wars and a Great Depression had thrown at them. While Harley-Davidson stayed focused on its American market assuring it was the nations and the worlds favourite, Japan was able to create better and cheaper motorbikes. It was this threat that resulted in 45% tariffs on Japanese models, giving Harley-Davidson t