

# Harley davidson motor company strategy analysis



**ASSIGN  
BUSTER**

## **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.**

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. In addition, Coachman industries also a manufacturer of leisure vehicles and a competitor of H-D was eliminated from the New York Stock Exchange.”(Wachter 2009).

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

<https://assignbuster.com/harley-davidson-motor-company-strategy-analysis/>

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.”

The Motorcycle 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 increase 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 increase its’ consumer demographics, however “... although the younger generation below 35 years of age has posted the largest gains in ownership, 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 motorcycles is the stigma that has been attached to these leisure vehicles. A lot 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 which holds 92% of the market share by volume with a market capitalization of 64. 653 Billion of a total Industry of 7 Billion.

Other firms in different industries that are direct product rivals include Honda Motor Company Limited, Yamaha Motor Co, Ltd., and Suzuki Motor Corporation” (Appendix 1).

“ 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**

“ The Recreational Vehicle industry faces threats from the Automobile Industry, from public transportation options and 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**

H-D 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 Supply Management Strategy system (SMS), Vibration Tech & PdM technology systems, as well as their web-based H-D 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. H-D plants are streamlined and well-maintained, which is a core resource for H-D.

### **Technological Resources**

H-D 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 H-D's most valuable human resources. The company culture, gives H-D 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 H-D, as these people know the business and know its potential. Since there are such a variety of inputs, H-D's capacity to innovate and create/develop new product is not subject to stagnation or groupthink.

However, H-D 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 H-D's operations, and keep customers loyal to the product. Interactions and relationships are stressed at H-D in order to ensure quality workmanship and mutually beneficial participation in all stages of production.

## **CAPABILITIES**

### **Purposely Integrated Technological Resources**

H-D 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.



## **Manufacturing**

H-D's JIT inventory pull system means that it must have streamlined manufacturing abilities. H-D does this by ensuring quality inputs into its manufacturing plants, flow production methods, and well-maintained equipment.

H-D 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 H-D has very few).

## **Distribution**

JIT inventory management needs good transportation flow logistics. H-D has the capability to reduce lead times and ensure pull delivery through its private fleet of trucks and contracts with distribution suppliers.

## **STRATEGIC OPTIONS**

The identification of possible directions builds on an understanding of H-D strategic position. The adaptation of Ansoff's product/market matrix is used for identifying directions for strategic development. Development directions are the strategic options available to H-D in terms of products and market coverage taking into account the strategic capability of the company and the expectation of shareholders. (Johnson et al 2005). Figure2, the adaptation of Ansoff's product/market matrix summarizes the strategic options available to H-D.

Figure 2. Strategy Development Directions – Source: Johnson et al (2005)

### Exploring Corporate Strategy

H-D can choose one or more of the following options:

It can protect and build on its current position.

It can develop new markets for its products.

It H-D can also develop new products in new markets and

It diversifies into new markets and develops new products.

These options can be pursued through different development methods which are internal development, mergers and acquisitions and strategic alliances.

The options chosen has to address the key issues and challenges faced by the H-D, the company must also satisfy stakeholders expectations but most important H-D must have the resources and capabilities to develop the options chosen. In other words the option must be suitable, acceptable and feasible (Johnson et al 2005).

The H-D 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, H-D 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 and snowmobiles. H-D has taken advantage of their exceptional culture and has used it to create sales.

<https://assignbuster.com/harley-davidson-motor-company-strategy-analysis/>

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, " H-D's 2008 profit fell 30 percent, decreasing shipments by 8 percent." (Harley Davidson Annual 2009 Report). The demand for heavyweight motorcycles has dropped dramatically, not only in the US economy but also worldwide.

A slow domestic economy 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. H-D 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 and the demand in foreign countries has forced management to apply their leadership and marketing skills to international markets. The economic slump has forced H-D 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" (Harley Davidson Inc. 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.

Many consumer behavior research studies indicate that consumers are very likely to purchase products that are offered as limited editions.

One strategy H-D can use in order to foster growth is to release a limited edition motorcycle, co-created by consumers as part of the promotional mix. H-D can use this promotional strategy to get consumers involved, appeal to their desires for rarity, and increase sales.

While H-D 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. H-D's research and development department would design three different motorcycles and then they would be uploaded to the H-D 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 H-D 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. 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

<https://assignbuster.com/harley-davidson-motor-company-strategy-analysis/>

help us to stand apart from the masses. A limited edition H-D motorcycle is the perfect way for consumers to do just that.

H-D is not new to the limited edition market scheme- the strategy just needs to be adjusted to today's consumer. One of H-D's previously successful limited edition motorcycles is the 50th Anniversary Nightster. This model was popular because it made people want what they couldn't have.

This model was embellished with a gold anniversary emblem and the year "1957" embroidered on the seat. The motorcycle also was aligned with the traditional masculinity of H-D, including the traditional colors, chrome pipes, and rugged-look. Only 2000 of these were manufactured and they retailed at only \$10, 000- now that's buzz-worthy. Even H-D representatives say they don't know of a single dealership with one in stock. (Harley Davidson Inc 2009).

Even in the declining economy, H-D can still grow their company by altering their promotional mix. H-D can create hype and buzz by releasing a limited edition motorcycle, co-created by consumers. Consumer behavior research shows that consumers respond positively to product campaigns focused on rarity and scarcity. The buzz created due to this product release will help to increase brand awareness, and more importantly, brand resonance. These two factors ultimately result in more sales for the company.

## **RECOMMENDATIONS**

There are many strategic options available to H-D however the choice made should be one that the company can pursue with existing resources and one that is line with the company's vision and mission.

<https://assignbuster.com/harley-davidson-motor-company-strategy-analysis/>

H-D should protect and build on their current position through consolidation and market penetration. “ Consolidation is where organizations protect and strengthen their position in their

current markets with current products. Market penetration, is where an organization

gains market share.” (Johnson et al 2005).

Appendix 1 page’s 5 and 6 shows that H-D used this strategy - they consolidated some of their operations so as to adjust cost structures and invested in their brand as a means of market penetration. Appendix 1 page 7 also states that H-D plans to add 100 to 150 dealer points through 2014. This is a good strategic option for the future but H-D should pursue this only after they have regained market share, reason being so that the company would have enough resources, especially financial resources to successfully pursue this option.

Product development and market development as discussed above are also good options but should not be pursued by H-D at this point in time as these options require extensive resources and investment. “ Whilst new products may be vital to the future of the organization, the process of creating a broad product line is expensive, risky and potentially unprofitable.” (Johnson et al 2005). H-D should use all their available resources to develop the company internally and focus on their brand. (as they are presently doing; Appendix 1 page 6)

## CONCLUSION

H-D has a strong foundation and a uniquely powerful brand however this was not enough to allow the company to escape the problems associated with the recent economic downturn. H-D has to pursue strategies that will enable them to sustain growth and market share to endure economic hard times and to keep away competitors. The company has laid down their business strategy quite clearly in their 2009 annual report (See Appendix page 6) and this is an excellent start to do achieving this.

If the company can turnaround itself around from the verge of bankruptcy in the 1980's then with the right tangible and intangible resources, current technology and the knowledge of past strategies used Harley Davidson can become the leader in the motorcycle industry internationally.

## REFERENCES

- Datamonitor (2007) Motorcycles in the United States: Industry Profile. [Online] Available at: <http://web.ebscohost.com/bsi/pdf?vid=6&hid=115&sid=60f53058-dbd4-402c-8546-03baa6899d4a%40sessionmgr107>. [Accessed: 5th March, 2011].
- Gauvin, T (2005) Harley Davidson. [Online] Available at: <http://209.85.173.132/search?q=cache:IVbpsaLDfmAJ:perleybrook.umfk.maine.edu/slides/spring%25202005/bus411/harley%2520Davidson.ppt+harley+davidson+external+analysis&hl=en&ct=clnk&cd=2&gl=us>. [Accessed: 5th March, 2011].
- Harley-Davidson Inc (2009) 2009 Annual Report. [Online] Available at: [http://www.harley-davidson.com/en\\_US/Content/Pages/Student\\_Center/student-center.html](http://www.harley-davidson.com/en_US/Content/Pages/Student_Center/student-center.html)



locale= en\_US&bmLocale= en\_US#annualreport [Accessed: 27th February, 2011].

- Harley-Davidson Inc (2009) Harley-Davidson Reports 2008 Results, Plans Lower 2009 Shipments and Unveils Strategy for Current Environment. [Online] Available at: [http://www.harley-davidson.com/wcm/Content/Pages/HD\\_News/Company/newsarticle.jsp?locale=en\\_US&articleLink=News/0375\\_press\\_release.hdnews#wsYear=2009&history=news](http://www.harley-davidson.com/wcm/Content/Pages/HD_News/Company/newsarticle.jsp?locale=en_US&articleLink=News/0375_press_release.hdnews#wsYear=2009&history=news) [Accessed: 27th February, 2011].
- Johnson, Gerry, Scholes, Kevan and Whittington, Richard (2005) Exploring Corporate Strategy. Seventh Edition. Harlow, Essex: Pearson Education. Print ISBN 0 273 68734 4.
- Koncept, A (2008) Recreational Vehicle Market: Aging Baby Boomers to Fuel Growth. [Online] Available at: <http://www.konceptanalytics.com/>. [Accessed: 27th February, 2011].
- Wasef, B (2009) Motorcycle Industry Council Reports Drop in Motorcycle Sales, Upswing for Scooters and Dual-Purposes. [Online] Available at: <http://motorcycles.about.com/b/2009/02/06/motorcycle-industry-council-reports-drop-in-motorcycle-sales-upswing-for-scooters-and-dual-purposes.htm>. [Accessed: 25th February, 2011].
- Wachter, D (2009) Motorcyclists Reap Benefits from the Stimulus Package. [Online] Available at: [http://www.tricity.com/tri/news/local/article/motorcyclists\\_reap\\_benefits\\_from\\_the\\_stimulus\\_package/20722/](http://www.tricity.com/tri/news/local/article/motorcyclists_reap_benefits_from_the_stimulus_package/20722/). [Accessed: 3rd March, 2011].