

Ducati brand essay

Business



Questions to answer 1) How did Ducati become the second most profitable motorcycle maker in the world despite its small scale? 2) What is the fundamental economic logic of Minoli's turnaround? 3) Can Ducati sustain its position in the sport segment? Can Honda and the other Japanese manufactures stop its growth in this segment? 4) What strategic alternatives are available to Minoli in 2001? Which alternatives would you recommend, why? GMAN 512 Midterm 11 February 2010 Dave Reynolds

What are the global driving forces in this industry in terms of cost factors, markets and competitive factors? Ducati, Harley-Davidson (H-D), BMW, Triumph, Honda, Kawasaki, Suzuki and Yamaha together produced motorcycle models that were categorized into seven market segments: Off-Road, Cruiser, Touring, Hyper-Sport, Super-Sport, Sport-Touring and Naked. All four Japanese manufacturers have models in all seven market segments while the remaining competitors have models in select segments. The Japanese manufacturers and UK's Triumph had average MSRP's of less than \$10, 000, while BMW, Ducati and H-D had average prices above \$10, 000. This price boundary was the price elasticity of demand inflection point: price-sensitive consumers tended to select the less expensive bikes, while riders who made purchase decisions on factors other than price bought BMW's, Harley's and Ducati's.

As a result, the Japanese companies commanded 80% of the global market from 1996 - 2000. Honda, Yamaha, Suzuki and Kawasaki all made models that were comparable to each other in terms of pricing, design and technology. Their individual shares of the market across all segments do not vary appreciably from '96 - '00. That Honda and Yamaha agreed to share

shipping costs in order to save 30% on delivery costs, with Kawasaki and Suzuki soon to ink a similar deal, tells us that these rivals were comfortable with the stasis of their relationships in the market. BMW, Ducati and H-D had more brand-loyal buyers.

Each manufacturer had a unique brand identity that was tied to design, heritage, lifestyle and a specific experience during rides. Brand loyalty allowed these companies to charge higher prices for performance and brand features that weren't available with the mass-market Japanese bikes. Consequently, buyers in the \$10, 000+ segments had less purchasing power than buyers of mass-market bikes. Ducati, BMW and H-D had much greater resistance to lost sales to substitutes than did the Japanese makers. The three niche players had product and brand characteristics that were not available in the mass-market bikes. Conversely, the Japanese firms lost and gained sales with each other on the basis of pricing and small feature advantages from one model year to the next because their products were effectively close substitutes of one another. Switching costs in terms of prestige and riding experience were high when moving from a niche bike to a mass-market bike but were low when moving from one mass-market bike to another. Though competition series' like MotoGP and World Super Bike reinforced some brand loyalty, the data in exhibit 3 illustrates that the effect of "race on Sunday, sell on Monday" had limited effect on gaining market share for mass-market bikes.

The case presents little detailed information on the barriers that would have been encountered by new entrants. However, the case does provide some hints as to whether a new entrant would be able to be successful. First, the <https://assignbuster.com/ducati-brand-essay/>

fact that four Japanese manufacturers have achieved stasis with each other indicates that there is little profit-taking opportunity in the mass market. Even if a new entrant could rapidly scale to the size of the Japanese firms, it is questionable whether any profit they could take would justify the capital investment necessary to enter. This leaves niche segments that either currently exist or that could be created through an innovative design as the only profitable entry points. Second, new entrants would need to build sourcing relationships with suppliers that currently provide components to the key players. A new entrant would find itself negotiating with suppliers who possess a lot of pricing power to compensate for the risk of reallocating production used by existing customers or investing in additional capacity. These increased costs would adversely affect profit margins, which would weaken the entrant's ROI.

Of course, a new entrant could vertically integrate all the components but this would require a substantial capital investment that would have an appreciable risk of failure if sufficient market share couldn't be taken. Third, we see from Ducati's approach in the case, as well as research on the internet, that niche players reinforce the brand by ensuring strongly positive and distinctive experiences at the dealer. This is achieved through retail stores dedicated to a single brand. A new entrant would incur the financial and opportunity costs of developing distribution and dealer networks to create the kind of owner experience that justifies a higher purchase price.

As a result of these reasons, we see that a new entrant would face significant barriers to entry. The cost factors in the motorcycle industry are typical of vehicle manufacturers: * Engineering and Design talent * Raw materials & <https://assignbuster.com/ducati-brand-essay/>

Fabrication (depending on level of outsourcing) * Components and sub-assemblies (brakes, forks, instrumentation, wheels, etc.) * Manufacturing capacity * Sales and Marketing * Distribution * Service Support 2.

How did Ducati become the second most profitable motorcycle maker in the world despite its small scale? Platform Approach: Ducati divided the bike into a small number of component and sub-component assemblies. A supplier was responsible for managing and delivering the component. The platform approach minimizes detailed, multi-step assembly processes. Consequently, fewer Ducati man-hours are needed to assemble a motorcycle. The assembly expertise of each component is concentrated at the supplier so that Ducati assemblers can apply higher-value labor on the overall bike assembly. High Degree of Component Outsourcing: As of 2001, Ducati outsourced 87% of its components to suppliers. The company planned to increase that rate to 90%. As mentioned above, outsourcing component manufacturing to suppliers results in a concentration of expertise and higher levels of quality, as discussed below.

Mission-driven Supplier Management: Ducati has the fortune of being proximate to the Emelian District of engineering talent. This district is comprised of a large number of component suppliers who possess profound levels of expertise in the kinds of technology Ducati exploited for its motorcycles. The interdependent relationships in that district led to joint activities that improved technical innovation. Ducati then developed supplier relationships with their mission of quality and high-performance in mind. Ducati reduced the number of suppliers from 200 to 130 and with the exception of a few key suppliers, formed short-term contracts with their

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component suppliers to keep them hungry and competitive for the firm's business. As a result, in a few short years from 1996 to 2000, Ducati's reputation shifted from being one of mediocre reliability to one of high quality. Not only did this approach to supplier management improve quality and control costs but it also reduced downstream technical support and warranty costs.

Minimize component variety through standardization: Variety drives complexity and complexity creates expense. Ducati minimized component and model variety as illustrated in Exhibit 13. Ducati appears to have made strategic decisions to minimize its market segments, the number of its models and crank cases, cylinder heads and engines. Manufacture components most critical to the brand: Ducati's signatures are wrapped up largely in its engines. The Desmodromic distribution system, L-twin engine and the unique tone of the Ducati engine and exhaust are all critical to the brand. Ducati did not outsource the crankcase or the cylinder heads because that was part of their art and central to their brand identity. Improve employee efficiency: Ducati improved the ratio of motorcycles per employee from 76 to 87 in 2000.

Internal design group to reduce time to market: Ducati was able to make changes in their product development methodology that reduced time to market from 36 months to 15. Reduced number of dealers: Ducati chose improve the quality of their dealers over geographical reach. To this end, they reduced their dealers worldwide.

In Italy, the number of was reduced from 165 to 65 in 2000. This resulted in an increase to 3, 250 in annual registrations per dealer from 2, 310. 3.

Does Ducati have a defensible position in its sports segment? Bikes in the \$10, 000+ price range compete on the basis of higher levels of performance and a unique experiential brand. As far as the case goes, Ducati's primary competitors are H-D and BMW. All three of these niche players have unique markets that attract specific demographics without much overlap. This means that Ducati, H-D and BMW are not typically suitable substitutes for each other. Ducati has chosen to develop partner relationships with the suppliers in the Emelian District and this gives a balanced level of power between Ducati and its suppliers. Ducati has demonstrated through its sales growth that there is adequate demand for its motorcycles in the key global markets, so Ducati retains some pricing power over its buyers. The Japanese manufacturers control the mass-market and though there are mass market bikes that are classed as Hyper-Sport and Super Sport, they don't possess the same cache of desirability as a niche bike like Ducati. This too protects Ducati from Japanese substitutions.

Ducati has developed and managed their value chain very well. This contributes substantially to their strong position. I've already discussed Ducati's effective management of Inbound Logistics and Operations. Ducati's Outbound Logistics approach is oriented around brand management in each of its markets. This is accomplished through dedicated, single-franchise dealerships instead of multi-franchise dealerships. This decision means that Ducati seeks a high-value customer experience with lower volumes in lieu of a mass-market approach. This is a strategy that is consistent with being a

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niche player; it makes sense for the Japanese firms to have multi-franchise dealerships since they are close substitutes of each other.

Marketing and Sales represents Ducati's most significant growth opportunities because their brand management strategy advances the Ducati name into the consciousness of their markets. In addition to motorcycles, Ducati extends the brand by selling accessories and apparel. For sure, Ducati owners will buy these products but perhaps more importantly, the aspirational aspect of the brand drives people to buy Ducati-branded items even if they don't own the bike. This behavior is seen with the Harley-Davidson brand: many people wear H-D clothing and don't own an H-D bike. The aspirational aspect will likely pull people upward from the mass-market bikes to the Ducati niche.

The dominance of Ducati in the World Super Bike championship is another key marketing move, particularly as the firm postures its products as sporty. The case doesn't address Service but what we can infer is that their service capabilities exist to generate dealer revenue and reinforce brand loyalty. The case does not indicate that Ducati has developed or intends to develop separate value chains from one geographical area to another.

4. What are Ducati's strategic alternatives? What do you recommend and why? I recommend three possible strategic alternatives for Ducati: 1. Low end middle weight bike 2. Sport Cruiser 3. MotoGP entry Low End Middle Weight Bike: Ducati's branding seeks to position its bikes as aspirational and inspirational. They could exploit this brand awareness by creating a middle weight 600cc motorcycle that maintains key characteristics like the Ducati

signature sound and image while using quality components with lower performance characteristics. This bike would be priced just below the \$10,000 threshold, at perhaps \$8900. The intent would be to make the Ducati experience more accessible to buyers who would ordinarily only consider Japanese mass-market bikes because of a lower price point.

While the bike would not be a laggard or poorly made, it would nonetheless lack the power and higher-performing components of Ducati bikes further up the product line. This would compel riders to move up into a more powerful bike as owner incomes grow. Innovate a New Niche: Sport Cruiser Cruisers are distinguished from sport bikes by their profiles and the rider position. Sport bikes have forward-leaning postures where the rider's legs are tucked up underneath the seat.

Naked bikes share the same foot positioning but use handlebar risers to bring the posture of the rider to a more upright position. Cruisers have longer wheelbases, higher handlebars and the rider's feet are positioned on floorboards or pegs that allow a more natural seat position. Of course, Harley-Davidson holds the dominant design ethic for cruisers. Cruisers by other manufacturers emulated the H-D form with some variation. They also sought to distance themselves from the Harley "bad boy" image to attract riders who wanted the posture of a cruiser without the negative image. Ducati could create a sport cruiser category that would be characterized by the upright seating position and foot locations but also with a design that evokes the Ducati style embodied in the rest of the product line. Wheelbases and front fork geometry could be slightly shorter to eliminate the sluggish

cornering associated with long wheelbase cruisers. Ducati would launch this model in Europe, where H-D has negligible market share.

This would enable them to advance the concept without having to counter H-D directly. The model would be held exclusively to Europe for a couple model years for two reasons: prove the concept before committing resources to compete against the Harley cruiser in the US; and to tease other global markets with the bike. Ducati could invite US motorcycle magazines to ride the bike during the exclusivity period.

If Ducati has evidence to support the cruiser's viability in the US, they could bring it over and compete as a bypass offensive positioning move. Since it would be a rule-changing sport cruiser, it wouldn't necessarily be viewed as a direct H-D competitor and it would attract sporty riders who want a cruiser riding posture with a more exciting experience. Compete in MotoGP: Ducati's dominance of World Super Bike in the 90's did much to advance the brand. However, WSB is viewed is both a feeder of fresh talent for MotoGP and a receiver of aging talent from MotoGP. The pinnacle of motorcycle competition is MotoGP and Ducati needs to advance the brand into that series