

CASE 5

HARLEY-DAVIDSON

Style and Strategy with a Global Reach

Harley-Davidson's American success story began in 1903 when two friends—William Harley and Arthur Davidson—built a motorized bicycle in a machine shop in Milwaukee, Wisconsin.¹ The progeny of that first machine now travel the world—with speed and style. Now the Harley Hog is going electric.



Bloomberg/Getty Images

Harley's Roots

When Harley-Davidson was founded it was one of more than 100 firms producing motorcycles in the United States. By the 1950s, it was the only remaining American manufacturer.² But in the 1960s, Honda began sales in the United States and Harley had difficulty competing against the Japanese firm's smaller bikes.

The American Machine and Foundry Co. (AMF) bought Harley in 1969 and quickly increased production.³ However, this rapid expansion led to significant problems with quality, and the better-built Japanese motorcycles began to take over the market.⁴ A group of 13 managers bought Harley-Davidson back from AMF in 1981 and began a turn around with the rallying cry "The Eagle Soars Alone." Richard Teerlink, former CEO of Harley, explained: "The solution was to get back to detail. The key was to know the business, know the customer, and pay attention to detail."⁵ The goals driving this turn around were increasing quality and improving service to customers and dealers.

Consolidation and Renewal

In 1983 Harley-Davidson asked the International Trade Commission (ITC) for tariff protection on the basis that Japanese manufacturers, including Honda, were stockpiling inventory in the United States and providing unfair competition. The request was granted. Harley was confident enough in 1987 to petition the ITC to have the tariff lifted because the company had improved its ability to compete with foreign imports. Once Harley's image had been restored, the company began to increase production and open new facilities.⁶

The average Harley customer in the 1980s was male, late thirties, with an average household income above \$40,000. Teerlink said: "Our customers want the sense of adventure that they get on our bikes... . Harley-Davidson doesn't sell transportation, we sell transformation. We sell excitement, a way of life."⁷ The company created a line of Harley accessories available online, by catalog, or through dealers, all adorned with the Harley-Davidson logo. These jackets, caps, T-shirts, and other items became popular with nonbikers as well. In fact, the clothing and parts had a higher profit margin than the motorcycles; nonbike products made up as much as half of sales at some dealerships.

Global Expansion

Although Harley had been exporting motorcycles ever since it was founded, it was not until the late 1980s that management invested seriously in international markets. Traditionally, the company's ads had been translated word for word into foreign languages. Now, new ads were developed specifically for different markets and Harley rallies were adapted to fit local customs.⁸ Harley actively recruited dealers in Europe and Japan, built a large parts warehouse in Germany, and purchased a Japanese distribution company.

Harley's management learned a great deal from these early international activities. Recognizing, for example, that German motorcyclists rode at high speeds—often more than 100 mph—the company began studying ways to give Harleys a smoother ride and emphasizing accessories that would give riders more protection.⁹ Its Japanese subsidiary adapted the company's marketing to fit local tastes, even producing shinier and more complete toolkits than those available in the United States. Harley bikes are now symbols of prestige in Japan, and many enthusiasts see themselves as rebels on wheels.¹⁰ The company has also made inroads into the previously elusive Chinese market. It partnered with China's Zongshen Motorcycle Group, which makes more than 4 million small-engine motorcycles each year.¹¹ Despite China's growing disposable income, the new store has several hurdles ahead of it, including riding restrictions imposed by the government in urban areas.

The Future

The U.S. market still represents almost 75% of Harley's sales.¹² Executives attribute Harley's success to loyal customers and the Harley-Davidson name. "It is a unique brand that is built on personal relationship and deep connections with customers, unmatched riding experiences, and proud history," said Jim Ziemer, Harley's former president and chief executive.¹³

CEO Keith E. Wandell seeks to increase growth by focusing effort and resources on the unique strengths of the Harley-Davidson brand. He also plans to enhance productivity and profitability through continuous improvement. Part of his approach focuses company resources on Harley-Davidson products and experiences, demographic outreach, commitment to core customers, and even more global growth.¹⁴ The latest innovation is the electric Hog, now in prototype and soon on the highways of the world. A Harley spokesperson says: We anticipate it's going to appeal to a younger, more urban demographic¹⁵ and that it is part of Harley's commitment to "preserving the riding environment."¹⁶

Case Analysis Questions

- 1. Discussion** If you were CEO of Harley-Davidson, how would you compare the advantages and disadvantages of using exports, joint ventures, and foreign subsidiaries as ways of expanding international sales?
- 2. Discussion** In America, Harley has shifted the positioning of its products away from simply motorcycles and more toward being status symbols of a particular lifestyle. What are the implications of cultural factors for positioning in other countries that Harley has targeted for growth—ones like Japan, China, France, and Brazil?
- 3. Problem Solving** If you were advising Harley's CEO on business expansion in sub-Saharan Africa, what would you recommend in terms of setting up sales centers and manufacturing sites in countries like South Africa, Kenya, and Zimbabwe? When a new location is targeted, what would you suggest as the proper role for locals to play? Should they run everything, or should there be a mix of locals and expatriates? And if the CEO wants to send expatriates from the United States into some locations, what selection criteria would you recommend, and why?
- 4. Further Research** Is it accurate to say that Harley is still "on top of its game"? How well is the company performing today in both domestic and global markets? Who are its top competitors in other parts of the world, and how well does Harley compete against them? Does the electric Harley have what it takes to fuel the company's next stage of global growth?