

Harley-Davidson, Inc. —Motorcycle Division

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Harley-Davidson, Inc., is a diversified company with corporate headquarters at 3700 Juneau Avenue, Milwaukee, Wisconsin. Its three major business segments include (1) motorcycles and related products, (2) transportation vehicles including both recreational and commercial vehicles, and (3) defense and other businesses. In 1990, the company experienced another record year of growth. In the *BusinessWeek* 1,000 ranking of the top U.S. companies, Harley-Davidson, Inc., with a market value of \$515 million, moved from the 973rd to the 865th largest U.S. company. Richard F. Teerlink, president and chief executive officer of the company, offered the following introduction to the company's 1990 annual report:

Fellow Shareholder: I am again pleased to announce a record year at Harley-Davidson, Inc. in terms of revenues, profits and earnings. I'm especially proud this year because we were able to deliver very impressive results despite the fact that 1990—the third and fourth quarters, especially—was tough on most American manufacturers.

Revenues for 1990 totaled \$864.6 million, an increase of 9.3 percent over 1989. Net income was \$37.8 million, a 14.8 percent increase and net earnings per share increased 11.0 percent to \$2.12. Since 1987, revenues, net income, and net earnings per share have increased 33.8, 78.3, and 29.3 percent, respectively. Considering where we were as recently as five years ago, these are tremendous results.

Indeed, these were tremendous results given that the company is the only U.S. motorcycle manufacturer still in business, although there were once more than 140 competitors. In addition, the company had tremendous difficulties surviving the 1970s and early '80s and few analysts thought it would survive. In fact, the company would have gone bankrupt in 1985 had it not gotten refinancing with only days to spare.

Company Background and Operations

Harley-Davidson was established in 1903 and had a virtual monopoly on the heavyweight motorcycle market by the 1960s.¹ In the early '60s Japanese manufacturers entered the marketplace with lightweight motorcycles that did not directly compete with Harley-Davidson. The influx of the Japanese products backed by huge marketing programs caused the demand for motorcycles to expand rapidly.

Recognizing the potential for profitability in the motorcycle market, American Machine and Foundry (AMF, Inc.) purchased Harley-Davidson in 1969. AMF almost tripled production to 75,000 units annually over a four-year period to meet the increases in demand. Unfortunately, product quality deteriorated significantly as over half the cycles came off the assembly line missing parts and dealers had to fix them up in order to make sales. Little money was invested in improving design or engineering. The motorcycles leaked oil, vibrated, and could not match the excellent performance of the Japanese products. While hard-core motorcycle enthusiasts were willing to fix up their Harleys and modify them for better performance, new motorcycle buyers had neither the devotion nor skill to do so. If Harley-Davidson was to remain in business, it desperately needed to improve quality and update its engine designs. Japanese manufacturers also moved into the heavyweight motorcycle market and began selling Harley look-alike motorcycles. Yamaha was the first company to do so and was soon followed by the three other major Japanese manufacturers, Honda, Suzuki, and Kawasaki. Their products looked so similar to Harley's that it was difficult to tell the difference without reading the name on the gas tank. The Japanese companies also copied the style of the Harley advertisements. As one Harley executive put it, "We weren't flattered."

In late 1975, AMF appointed Vaughn Beals in charge of Harley-Davidson. He set up a quality control and inspection program that began to eliminate the worst of the production problems. However, the cost of the program was high. For example, the company had to spend about \$1,000 extra per bike to get the first 100 into shape for dealers to sell at around \$4,000. Beals along with other senior managers began to develop a long-range product strategy—the first time the company had looked 10 years ahead. They recognized the need to upgrade the quality and performance of their products to compete with the faster, high-performance Japanese bikes. However, they also recognized that such changes would require years to accomplish and a huge capital investment.

In order to stay in business while the necessary changes in design and production were being accomplished, the executives turned to William G. Davidson, Harley's styling vice president. Known as "Willie G." and a grandson of one of the company founders, he frequently mingled with bikers, and with his beard, black leather, and jeans was well accepted by them. Willie G. understood Harley customers and stated that:

They really know what they want on their bikes: the kind of instrumentation, the style of bars, the cosmetics of the engine, the look of the exhaust pipes, and so on. Every little piece on a Harley is exposed, and it has to look just right. A tube curve or the shape of a timing case can generate enthusiasm or be a total turnoff. It's almost like being in the fashion business.²

¹This section is based on "How Harley Beat Back the Japanese," *Fortune*, September 25, 1989, pp. 155–64.

²*Ibid.*, p. 156.

Willie G. designed a number of new models by combining components from existing models. These included the Super Glide, the Electra Glide, the Wide Glide, and the Low Rider. Each model was successful and other Harley executives credit Davidson's skill with saving the company. One senior executive said of Willie G., "The guy is an artistic genius. In the five years before we could bring new engines on-stream, he performed miracles with decals and paint. A line here and a line there and we'd have a new model. It's what enabled us to survive."

Still, Harley-Davidson was losing market share to its Japanese competitors, who continued to pour new bikes into the heavyweight market. By 1980, AMF was losing interest in investing in the recreational market and decided to focus its effort on its industrial product lines. Since AMF could not find a buyer for Harley-Davidson, it sold the company to 13 senior Harley executives in an \$81.5 million leveraged buyout financed by Citicorp on June 16, 1981.

In 1982 things turned worse than ever for Harley-Davidson. Overall demand for motorcycles dropped dramatically and Harley's market share of this smaller market also continued to drop. The company had a large inventory of unsold products and could not continue in business with its level of production and expenses. Production was cut drastically, and more than 1,800 of the 4,000 employees were let go.

The Japanese manufacturers continued producing and exporting to the United States at rates well above what the market could endure. Harley-Davidson was able to prove to the International Trade Commission (ITC) that there was an 18-month finished-goods inventory of Japanese motorcycles that fell well below fair market value and asked for protection. The ITC can offer protection to a U.S. industry being threatened by a foreign competitor. In 1983, President Reagan increased the tariffs on large Japanese motorcycles from 4.4 percent to 49.4 percent, but these would decline each year and be effective for only five years. While this did decrease the imports somewhat and gave Harley some protection, Japanese manufacturers found ways to evade most of the tariffs, for example, by assembling more of their heavyweight bikes in their U.S. plants. Harley-Davidson's market share in the 1983 heavyweight motorcycle market slipped to 23 percent, the lowest ever, although it did earn a slight profit. By 1984, it had sales of \$294 million and earned \$2.9 million; it has continued to increase sales and profits through the early 1990s.

Manufacturing Changes

From the late 1970s Harley-Davidson executives recognized that the only way to achieve the quality of Japanese motorcycles was to adopt many of the manufacturing techniques used by them. The manufacturing systems changes that were instituted included a just-in-time manufacturing program and a statistical operator control system.³

The just-in-time manufacturing program was renamed MAN which stood for Materials As Needed. When the program was discussed with managers and employees at the York, Pennsylvania manufacturing facility, many of them reacted in disbelief. The York plant already had a modern computer-based control system with overhead conveyors and high-rise parts store and the new system would replace all of this with push carts! However, the MAN system eliminates the mountains of costly parts inventory and handling systems, speeds up set-up time, and can solve other manufacturing problems. For example, parts at the York facility were made in large batches for long production runs. They were stored until needed and then loaded on a 3.5 mile conveyor that rattled endlessly around the plant. In some cases, parts couldn't be found, or when they were, they were rusted or damaged. In other cases, there had been engineering changes since the parts were made and they simply no longer fit. The MAN system consists of containers that travel between the place where

³This section is based on Thomas Gelb, "Overhauling Corporate Engine Drivers Winning Strategy," *Journal of Business Strategy*, November/December 1989, pp. 8-12.

the parts are made and where they are to be used. The containers serve as a signal at each end to either "feed me" or "empty me." This system is credited with reducing work-in-process inventory by \$22 million.

The statistical operator control (SOC) system allows continuous process improvements to reduce costs. The system involves teaching machine operators to use simple statistics to analyze measurements taken from parts to determine dimensional accuracy and quality. The system helps identify problems that occur during production early enough that they can be corrected before many parts are produced.

Human Resource Changes

In designing the new manufacturing processes, Harley executives recognized the importance of employee involvement.⁴ In 1978 the company was among the first in the United States to institute a companywide employee involvement program. Harley-Davidson was the second U.S. company to begin a quality circles program which permits employees to contribute their ideas, solve problems, and improve the efficiency and quality of their work. Prior to these changes, engineers would figure out how to improve the manufacturing process and then tell operating employees what changes they needed to make. Naturally, the engineering plans were not flawless but the operating employees would not lift a finger to help solve the problems and would simply blame the engineers for screwing up again.

The changes in manufacturing and human resource strategy were credited with a 36 percent reduction in warranty costs; a 46 percent increase in defect-free vehicles received by dealers since 1982; inventory turnover up 500 percent; and productivity per employee up 50 percent.

Marketing Changes

By 1983 Harley executives recognized that they had become too internally-oriented and needed to pay greater attention to customers.⁵ They recognized that they would not be able to compete effectively with the Japanese manufacturers by offering a complete product line of motorcycles but rather would have to find a niche and defend it successfully. They decided to focus all of their efforts on the superheavyweight motorcycle market (850cc or greater) and adopted a "close-to-the-customer" philosophy. This involved several unique marketing strategies. First, Harley executives actively sought out and discussed motorcycle improvement issues with customers. Second, it started the Harley Owner Group (HOG) to bring together Harley riders and company management in informal settings to expand the social atmosphere of motorcycling. The club is factory sponsored and is open to all Harley owners. It sponsors national rallies and local events and gives customers a reason to ride a Harley and involves them in a social group whose main activities revolve around the product.

Third, it began a Demo Ride program in which fleets of new Harleys were taken to motorcycle events and rallies and licensed motorcyclists were encouraged to ride them. This program was felt to be critical for convincing potential new customers that Harley-Davidson motorcycles were of excellent quality and not the rattling, leaking bikes of the 1970s. The program was renamed SuperRide and \$3 million was committed to it. A series of TV commercials was purchased to invite bikers to come to any of Harley's over 600 dealers for a ride on a new Harley. Over three weekends, 90,000 rides were given to 40,000 people, half of whom owned other brands. While sales from the program did not immediately cover costs, many of the riders came back a year or two later and purchased a Harley.

Fourth, the company invited several manufacturing publications to visit the plant and publish articles on quality improvement programs. These articles reached the manufacturing trade audience and the national media as well. Finally, recognizing that many dealers

⁴Ibid.

⁵Ibid.

viewed their business as a hobby and did not know how to sell, the company increased its sales force by 50 percent to give sales representatives more time to train dealers in how to sell Harleys.

Financial Changes

Although Harley-Davidson was improving its quality, reducing its breakeven point, catching up with competitors in the superheavyweight market, and marketing more aggressively, Citicorp was concerned about the economy and what would happen to Harley-Davidson when the tariffs on Japanese bikes were lifted in 1988.⁶ The bank decided it wanted to recover its loans and quit being a source of funds for the company. After a number of negotiations, Citicorp took a \$10 million write-off which might have facilitated Harley obtaining new financing. However, other bankers felt that the company must have been in really bad shape if Citicorp took a write-off and refused financial assistance. While lawyers were drawing up a bankruptcy plan, Harley executives continued to seek refinancing. Finally, several banks did agree to pay off Citicorp and refinance the company with \$49.5 million.

Harley-Davidson went public with a stock sale on the American Stock Exchange in 1986. The company hoped to raise an additional \$65 million and obtained over \$90 million with the sale of common stock and high-yielding bonds. It then was in an excellent cash position and purchased Holiday Rambler Corporation, at that time the largest privately held recreational vehicle company in the United States. Holiday Rambler is similar to Harley-Davidson in that it is a niche marketer that produces premium-priced products for customers whose lives revolve around their recreational activities. In 1987 the company moved to the New York Stock Exchange and made two additional stock market offerings. Selected financial data for Harley-Davidson is contained in Exhibits 1 through 4.

By 1987, Harley-Davidson was doing so well that it asked to have the tariffs on Japanese bikes removed a year ahead of schedule. On its 85th birthday in 1988, the company held a huge motorcycle rally involving over 40,000 motorcyclists from as far away as San Francisco and Orlando, Florida. All attendees were asked to donate \$10 to the Muscular Dystrophy Association and Harley memorabilia was auctioned off. The event raised over \$500,000 for charity. The final ceremonies included over 24,000 bikers whose demonstration of product loyalty is unrivaled for any other product in the world.

Motorcycle Division—Early 1990

Exhibit 5 shows the motorcycle division's growth in unit sales. In 1990, Harley-Davidson dominated the superheavyweight motorcycle market with a 62.3 percent share while Honda had 16.2 percent, Yamaha had 7.2 percent, Kawasaki had 6.7 percent, Suzuki had 5.1 percent, and BMW had 2.5 percent. Net sales for the division were \$595.3 million with parts and accessories accounting for \$110 million of this figure. Production could not keep up with demand for Harley-Davidson motorcycles although a \$23 million paint center at the York, Pennsylvania plant was nearing completion and would increase production to 300 bikes per day.⁷

Approximately 31 percent of Harley-Davidson's 1990 motorcycle sales were overseas. The company worked hard at developing a number of international markets. For example, anticipating the consolidation of Western European economies in 1992, a European parts and accessories warehouse was established in Frankfurt, Germany, in 1990. After

⁶Ibid.

⁷Harley-Davidson, Inc. Annual Report 1990, p. 12.

EXHIBIT 1 Harley-Davidson, Inc., Selected Financial Data (In thousands, except share and per share amounts)

Source: Harley-Davidson, Inc., Annual Report 1990, p. 29.

	1990	1989	1988	1987	1986
Income statement data:					
Net sales	\$864,600	\$790,967	\$709,360	\$645,966	\$295,322
Cost of goods sold	635,551	596,940	533,448	487,205	219,167
Gross profit	229,049	194,027	175,912	158,761	76,155
Selling, administrative, and engineering	145,674	127,606	111,582	104,672	60,059
Income from operations	83,375	66,421	64,330	54,089	16,096
Other income (expense):					
Interest expense, net	(9,701)	(14,322)	(18,463)	(21,092)	(8,373)
Lawsuit judgment	(7,200)	—	—	—	—
Other	(3,857)	910	165	(2,143)	(388)
	(20,758)	(13,412)	(18,298)	(23,235)	(8,761)
Income from continuing operations before income taxes and extraordinary items	62,617	53,009	46,032	30,854	7,335
Provision for income taxes	24,309	20,399	18,863	13,181	3,028
Income from continuing operations before extraordinary items	38,308	32,610	27,169	17,673	4,307
Discontinued operation, net of tax	—	3,590	(13)	—	—
Income before extraordinary items	38,308	36,200	27,156	17,673	4,307
Extraordinary items	(478)	(3,258)	(3,244)	3,542	564
Net income	\$ 37,830	\$ 32,942	\$ 23,912	\$ 21,215	\$ 4,871
Weighted average common shares outstanding	17,787,788	17,274,120	15,912,624	12,990,466	10,470,460
Per common share:					
Income from continuing operations	\$ 2.15	\$ 1.89	\$ 1.70	\$ 1.36	\$ 0.41
Discontinued operation	—	0.21	—	—	—
Extraordinary items	(.03)	(.19)	(.20)	0.28	0.05
Net income	\$ 2.12	\$ 1.91	\$ 1.50	\$ 1.64	\$ 0.46
Balance sheet data:					
Working capital	\$ 50,152	\$ 51,313	\$ 74,904	\$ 64,222	\$ 38,552
Total assets	407,467	378,929	401,114	380,872	328,499
Short-term debt, including current maturities of long-term debt	23,859	26,932	33,229	28,335	18,090
Long-term debt, less current maturities	48,339	74,795	135,176	178,762	191,594
Total debt	72,198	101,727	168,405	207,097	209,684
Stockholders' equity	198,775	156,247	121,648	62,913	26,159

In December 1986, the company acquired Holiday Rambler Corporation. Holiday Rambler Corporation's results of operations are not included in the income statement data for 1986.

entering a joint venture in 1989 with a Japanese distributor, the company bought out all rights for distribution in Japan in 1990. Revenue from international operations grew from \$40.9 million in 1986 to \$175.8 million in 1990.

Product Line

For 1991, Harley-Davidson offered a line of 20 motorcycles shown in Exhibit 6. Other than the XLH Sportster 883 and XLH Sportster 883 Hugger which had chain drives, all models were belt driven; all models had a five speed transmission. Three of the Sportster models had an

EXHIBIT 2 Harley-Davidson, Inc., Consolidated Statement of Income (in thousands except per share amounts)

Source: Harley-Davidson, Inc., Annual Report 1990, p. 34.

Years Ended December 31	1990	1989	1988
Net sales	\$864,600	\$790,967	\$709,360
Operating costs and expenses:			
Cost of goods sold	635,551	596,940	533,448
Selling, administrative, and engineering	145,674	127,606	111,582
	781,225	724,546	645,030
Income from operations	83,375	66,421	64,330
Interest income	1,736	3,634	4,149
Interest expense	(11,437)	(17,956)	(22,612)
Lawsuit judgment	(7,200)	—	—
Other-net	(3,857)	910	165
Income from continuing operations before provision for income taxes and extraordinary items	62,617	53,009	46,032
Provision for income taxes	24,309	20,399	18,863
Income from continuing operations before extraordinary time	32,610	27,169	38,308
Discontinued operation, net of tax:			
Income (loss) from discontinued operation	—	154	(13)
Gain on disposal of discontinued operation	—	3,436	—
Income before extraordinary items	38,308	36,200	27,156
Extraordinary items:			
Loss on debt repurchases, net of taxes	(478)	(1,434)	(1,468)
Additional cost of 1983 AMF settlement, net of taxes	—	(1,824)	(1,776)
Net income	\$ 37,830	\$ 32,942	\$ 23,912
Earnings per common share:			
Income from continuing operations	\$ 2.15	\$ 1.89	\$ 1.70
Discontinued operation	—	.21	—
Extraordinary items	(.03)	(.19)	(.20)
Net income	\$ 2.12	\$ 1.91	\$ 1.50

883cc engine and one had a 1200cc engine; all of the remaining models had a 1340cc engine. The first five models listed in Exhibit 6 were touring models while the remaining bikes were standard and cruising types. All of the models exhibited impressive painting and classic styling attributes visually reminiscent of Harley-Davidson motorcycles from the '50s and '60s.

Motorcycle magazine articles commonly were favorable toward Harley-Davidson products but pointed out weaknesses in various models. For example, a review of the XLH Sportster 1200 in the December 1990 edition of *Cycle* reported that

But Harley undeniably has its corporate finger on the pulse of Sportster owners, and knows what they want. All of the complaints—poor suspension, high-effort brakes, awkward riding position, short fuel range, engine vibration, and poor seat—have echoed through the halls of 3700 Juneau Ave. for more than a decade, yet have had seemingly little effect on XL sales. H-D sold 24,000 Sportsters over the past two years, and these complaints have been common knowledge to anyone who's cared enough to listen.⁸

The article, however, was very complimentary of the newly designed engine and new five speed transmission and concluded that "This is the best Sportster ever to roll down an assembly line."

A review of the same model in *Cycle World's 1991 Motorcycle Buyer's Guide* pointed out a number of the same problems but concluded that

⁸"Harley-Davidson 1200 Sportster," *Cycle*, December 1990, p. 90.

EXHIBIT 3 Harley-Davidson, Inc., Consolidated Balance Sheet (In thousands except share amounts)

Source: Harley-Davidson, Inc., Annual Report 1990, p. 33.

December 31	1990	1989
Assets		
Current assets:		
Cash and cash equivalents	\$ 14,001	\$ 39,076
Accounts receivable, net of allowance for doubtful accounts	51,897	45,565
Inventories	109,878	87,540
Deferred income taxes	14,447	9,682
Prepaid expenses	6,460	5,811
Total current assets	196,683	187,674
Property, plant and equipment, net	136,052	115,700
Goodwill	63,082	66,190
Other assets	11,650	9,365
	\$407,467	\$378,929
Liabilities and Stockholders' Equity		
Current liabilities:		
Notes payable	\$ 22,351	\$ 22,789
Current maturities of long-term debt	1,508	4,143
Accounts payable	50,412	40,095
Accrued expenses and other liabilities	72,260	69,334
Total current liabilities	146,531	136,361
Long-term debt	48,339	74,795
Other long-term liabilities	9,194	5,273
Deferred income taxes	4,628	6,253
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Series A Junior Participating preferred stock, 1,000,000 shares authorized, none issued	—	—
Common stock, 18,310,000 and 9,155,000 shares issued in 1990 and 1989, respectively	183	92
Additional paid-in capital	87,115	79,681
Retained earnings	115,093	77,352
Cumulative foreign currency translation adjustment	995	508
	203,386	157,633
Less:		
Treasury stock (539,694 and 447,091 shares in 1990 and 1989, respectively), at cost	(771)	(112)
Unearned compensation	(3,840)	(1,274)
Total stockholders' equity	198,775	156,247
	\$407,467	\$378,929

Yet the bike's appeal is undeniable. A stab at the starter button rumbles it into instant life, and as the engine settles into its characteristically syncopated idle, the bike is transformed into one of the best platforms anywhere from which to Just Cruise. And that means everything from cruising your immediate neighborhood to cruising (with appropriate gas and rest stops) into the next state.

This the bike is more than willing to do, with its premium tires and seemingly bullet-proof reliability. The important thing is to not ask the Sportster 1200 to be something it isn't. What it is, is a Sportster, much as Sportsters always have been.

This is merely the best one yet.⁹

⁹"Harley-Davidson Sportster 1200—Improving on Tradition," *Cycle World 1991 Motorcycle Buyer's Guide*, April–May 1991, p. 27.

EXHIBIT 4 Harley-Davidson, Inc., Business Segments and Foreign Operations

Source: Harley-Davidson, Inc., Annual Report 1990, p. 43.

A. Business Segments (in thousands)					
			1990	1989	1988
Net sales:					
Motorcycles and related products			\$595,319	\$495,961	\$397,774
Transportation vehicles			240,573	273,961	303,969
Defense and other businesses			28,708	21,045	7,617
			\$864,000	\$790,967	\$709,360
Income from operations:					
Motorcycles and related products			\$ 87,844	\$ 60,917	\$ 49,688
Transportation vehicles			825	12,791	20,495
Defense and other businesses			2,375	2,236	755
General corporate expenses			(7,699)	(9,523)	(6,608)
			83,375	66,421	64,330
Interest expense, net			(9,701)	(14,322)	(18,463)
Other			(11,057)	910	165
Income from continuing operations before provision for income taxes and extraordinary items			\$ 62,617	\$ 53,009	\$ 46,032
	Motorcycles and Related Products	Transportation Vehicles	Defense and Other Businesses	Corporate	Consolidated
1988					
Identifiable assets	\$180,727	\$215,592	\$2,863	\$1,932	\$401,114
Depreciation and amortization	10,601	6,958	3	396	17,958
Net capital expenditures	14,121	6,693	66	29	20,909
1989					
Identifiable assets	192,087	176,813	7,018	3,011	378,929
Depreciation and amortization	9,786	7,282	1,125	1,814	20,007
Net capital expenditures	18,705	3,524	1,190	200	23,619
1990					
Identifiable assets	220,656	177,498	7,163	2,150	407,467
Depreciation and amortization	13,722	6,925	1,166	618	22,431
Net capital expenditures	34,099	2,547	1,257	490	38,393

There were no sales between business segments for the years ended December 31, 1990, 1989, and 1988.

B. Foreign Operations

	1990	1989	1988
Assets	\$25,853	\$18,065	\$ 6,557
Liabilities	17,717	15,814	3,761
Net sales	82,811	39,653	22,061
Net income	5,555	2,281	1,941

Export sales of domestic subsidiaries to nonaffiliated customers were \$93.0 million, \$75.4 million and \$56.8 million in 1990, 1989, and 1988, respectively.

EXHIBIT 5
Harley-Davidson
Motorcycle Unit
Sales 1983–1990

Source: Adapted from Harley-Davidson, Inc., Annual Report 1990, p. 20.

Year	Total Units	Domestic Units	Exports Units	Export Percentage
1990	62,458	43,138	19,320	30.9
1989	58,925	43,637	15,288	25.9
1988	50,517	38,941	11,576	22.9
1987	43,315	34,729	8,586	19.8
1986	36,735	29,910	6,825	18.6
1985	34,815	29,196	5,619	16.1
1984	39,224	33,141	6,083	15.5
1983	35,885	31,140	4,745	13.2

EXHIBIT 6
Harley-Davidson,
Inc., 1991 Product
Line and Suggested
Retail Prices

Source: Adapted from *Cycle World 1991 Motorcycle Buyer's Guide*, pp. 76–82.

Model	Suggested Retail Price
FLTC Tour Glide Ultra Classic	\$13,895
FLHTC Electra Glide Ultra Classic	\$13,895
FLTC Tour Glide Classic	\$11,745
FLHTC Electra Glide Classic	\$11,745
FLHS Electra Glide Sport	\$10,200
FXDB Sturgis	\$11,520
FLSTC Heritage Softail Classic	\$11,495
FLSTF Fat Boy	\$11,245
FXSTS Springer Softail	\$11,335
FXSTC Softail Custom	\$10,895
FXLR Low Rider Custom	\$10,295
FXRT Sport Glide	\$10,595
FXRS Low Rider Convertible	\$10,445
FXRS SP Low Rider Sport Edition	\$10,295
FXRS Low Rider	\$10,195
FXR Super Glide	\$ 8,995
XLH Sportster 1200	\$ 6,095
XLH Sportster 883 Deluxe	\$ 5,395
XLH Sportster 883 Hugger	\$ 4,800
XLH Sportster 883	\$ 4,395

Pricing

The suggested retail prices for 1991 Harley-Davidson motorcycles are also shown in Exhibit 6. These products were premium-priced although the low-end XLH Sportster 883 and XLH Sportster 883 Hugger were less so in order that new motorcyclists could buy them and then trade up at a later time to larger, more expensive models. In fact, in 1987 and 1988, the company offered to take any Sportster sold in trade on a bigger Harley-Davidson at a later time.

The prices for Harleys can be compared with competitive products.¹⁰ For example, the three 1991 Honda Gold Wing touring models with larger 1520cc engines had suggested retail prices of \$8,998, \$11,998 and \$13,998. A Harley look-alike, the Kawasaki Vulcan 88, had a 1470cc engine and a suggested retail selling price of \$6,599; a Kawasaki Voyager XII with a 1196cc engine had a suggested retail selling price of \$9,099. Another Harley look-alike, the Suzuki Intruder 1400, had a 1360cc engine and a suggested retail selling price of

¹⁰All prices are taken from the same reference as footnote 9.

\$6,599. The Yamaha Virago 1100, another Harley look-alike, had a 1063cc engine and also had a suggested retail selling price of \$6,599.

Promotional Activities

Kathleen Demitros, vice president of marketing for the Motorcycle Division, discussed a problem in designing advertising for Harley-Davidson motorcycles:

One of the problems was that we had such a hard-core image out there that it was turning off a lot of people, even though people basically approved of Harley-Davidson. We had to find a way to balance our image more, without turning it into 'white bread' and making it bland. Our goal was to get as close to our Harley riders as possible and communicate with them very personally.¹¹

In addition to print advertising in general magazines, and Harley's own quarterly magazine, called *Enthusiast*, Harley has its own catalogs with full color pictures and descriptions of each model and discussions of Harley-Davidson products. For example, following is an excerpt from the 1991 Harley-Davidson catalog:

To the average citizen, it's a motorcycle. To the average motorcyclist, it's a Harley. To the Harley owner, it's something else entirely, something special. Once you've got your Harley, it's much more than a piece of machinery or a way to get around. In a sense, it actually owns you. It occupies you even when you're not riding it. It's part of your life. And while you might not ever be able to explain it to anyone who doesn't know, you know; the trip certainly doesn't end after the road does. Different? Most wouldn't have it any other way.

In 1990 the Harley Owner Group had 650 chapters and 134,000 members with expected growth in 1991 of 15 percent and an additional 55 chapters.¹² In addition to national, regional, and state rallies and other events, meetings between HOG members and Harley management continued to provide suggestions for product improvements. HOG groups have "adopted" various scenic highways and have taken responsibility for their upkeep. In the 10 years Harley-Davidson and its owner groups have been involved, they have raised over \$8.6 million for the Muscular Dystrophy Association.

Dealer Improvements

Several years earlier Harley-Davidson instituted a Designer Store program to improve the appearance, image, and merchandising of its products at the retail level. By the end of 1990, more than 310 of the company's 851 domestic and international motorcycle dealerships had completed major store renovation projects or had agreed to do them in 1991. Some dealers reported receiving full return on the renovation investment within 12 to 18 months due to increased sales brought about by a more inviting shopping environment.

Market Information

The traditional U.S. motorcyclist is an 18- to 24-year-old male.¹³ Since 1980, the number of men in this age group has declined from 42.4 million to 35.3 million. By 2000 the number is expected to be only slightly higher, at 36.1 million. Women are buying motorcycles in increasing numbers and sales to them have doubled. However, they still account for only 6 percent of the total motorcycles purchased. Motorcycle manufacturers have responded to this market, however, by designing bikes that are lower slung and easier for

¹¹Kate Fitzgerald, "Kathleen Demitros Helps Spark Comeback at Harley-Davidson," *Advertising Age*, January 8, 1990, p. 3.

¹²This discussion is based on Harley-Davidson, Inc., Annual Report 1990, pp. 15-26.

¹³This discussion is based on Doron P. Levin, "Motorcycle Makers Shift Tactics," *New York Times*, September 16, 1989.

EXHIBIT 7 U.S. Motorcycle Market Shares for Major Manufacturers

Source: R. L. Polk & Co., as reported in "That 'Vroom!' You Hear Is Honda Motorcycles," *BusinessWeek*, September 3, 1990, p. 74.

Company	1985	1987	1989
Honda	58.5	50.8	28.9
Yamaha	15.5	19.8	27.7
Kawasaki	10.2	10.2	15.6
Suzuki	9.9	11.6	14.2
Harley-Davidson	4.0	6.3	13.9

women to ride. The Harley-Davidson XLH Sportster 883 Hugger was designed in part for this market.

The sale of motorcycles, including three- and four-wheel off-road vehicles, peaked in 1984 at 1,310,240 units. Five years later sales had dropped to 483,005 units. Sales dropped in all categories, although dirt bikes had the largest sales losses. Sales of larger motorcycles, which tend to be purchased by older buyers for use on highways, represented 12.2 percent of sales in 1984 but increased to 21.3 percent of sales five years later.

As less affluent young men have drifted away from motorcycling, the sport has been taken up by professionals and businesspeople in their 40s and 50s. Likely, the late Malcolm S. Forbes, motorcycle enthusiast and wealthy magazine publisher, influenced this market which is older, more conservative, and often rides long distances with their spouses on luxury vehicles.

There is some evidence that many motorcycle owners do not use their bikes very often, some only for a ride or two in the summer. Although the number of fatal accidents involving motorcycles declined 9 percent in a recent year, this decrease was likely because of decreased usage. The Insurance Institute for Highway Safety reported that in a crash, a person was 17 times more likely to die on a motorcycle than in a car.

Competition

Exhibit 7 shows changes in overall market share percentages for the five major competitors in the U.S. motorcycle market.¹⁴ Honda clearly lost the greatest share and its sales decreased from \$1.1 billion in fiscal 1985 to \$230 million in fiscal 1990. However, motorcycle sales represent less than 1 percent of Honda's worldwide revenues.

Honda's plan to battle its sagging sales involved the introduction of more expensive, technologically-advanced bikes. However, with an increase in the value of the yen from 250 to the dollar in 1987 to 120 by 1988, all Japanese competitors had to raise prices. Honda had to raise their prices even more to cover their new expensive models and became less price competitive. In fact, nearly 600 Honda motorcycle dealers went out of business since 1985, leaving the company with 1,200 dealers in North America. Honda's Maryville, Ohio, plant had so much excess capacity that executives considered transforming much of it to production of auto parts.

Honda's 1990 strategy included cutting back prices and a \$75 million advertising campaign to reintroduce the "wholesome" angle of cycling to reach new market segments. Promotional emphasis was also given to encouraging Americans to use motorcycles for commuting as an alternative to cars as is done in Europe and the Far East. High levels of air pollution, increased traffic, and rising fuel costs supported Honda's strategy. The advertising campaign was oriented less to selling individual products than to selling the idea that motorcycling is fun. Honda also offered free rides in shopping malls, sponsors races, and paid for Honda buyers to be trained at Motorcycle Safety Centers throughout the country.

¹⁴This discussion is based on "That 'Vroom!' You Hear Is Honda Motorcycles," *BusinessWeek*, September 3, 1990, pp. 74, 76.

In 1991, Honda's motorcycle product line included 25 models with displacements from 49 to 1520cc's including sportbikes, touring, cruisers, standards, and dual purpose types. It also included four models of 4-wheel all terrain vehicles (ATVs). Kawasaki's line included 23 motorcycle models in a variety of types and four 4-wheel models. Suzuki offered 24 models of motorcycles and 8 4-wheel models. Yamaha offered 25 motorcycle models and 7 4-wheel models. Other smaller competitors in the U.S. market included ATK, BMW, Ducati, Husqvarna, KTM, and Moto Guzzi.

The Future

Rich Teerlink and the other Harley executives have much to be proud of in bringing back the company to a profitable position. However, they must also plan for the future, a future that is uncertain and fraught with problems. For example, the company faces much larger, well-financed competitors in the industry. The company faces increasing legislation on motorcycle helmet use and noise abatement laws that could decrease industry sales.

The company clearly recognizes the fact that the motorcycle industry has contracted greatly since the mid-1980s. It faces the problem of judging how much to increase supply of Harley-Davidson motorcycles given that it is a mature product whose future is uncertain. It faces decisions concerning how much should be invested in such an uncertain market and what marketing approaches are the most appropriate given this situation.

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