Goodman School of Business

Presented to: Matt Levatich, CEO at Harley Davidson
Presented by: Goodman Consulting Group
Given the rapid industry changes and disruptions, is the 10-year plan a recipe for success and long-term growth?

What changes should be made to the competitive strategy?
## Recommendations

- Acquire “Zero Motorcycles”
- Modify variety based on customer segment
- Modify materials used for bike build; Reduce steel and Aluminium to new environmentally and sustainable products
- Strategic partnership with key market players: TESLA
- Acquire “Store-Dot” for battery and quick charge
- Partnership with top brands in multimedia and hardware to increase the “Harley Experience”
- Open two new factories in Africa, Europe
- Leverage “HDFS” In emerging markets
3 C’S

Company
- Maintain a majority market share
- Design superiority and customization
- 10-year plan: 5 objectives

Competitor
- India: direct and strongest competitor is Royal Enfield
- Competitors in India, Japan and China

Consumer
- Target: men aged 35+
- Asia-Pacific market holds the majority of the market share
COMPANY ANALYSIS

- **Problem Analysis**
  - 2 revenue streams through HDMC (motorcycles, accessories) and HDFS (financing and insurance)
  - Brand: loud, large and pricey
  - Majority market share in the heavyweight motorcycle class in the US
  - Design superiority and customization
  - 5 objectives in the 10-year plan
COMPANY ANALYSIS: 10-YEAR PLAN

- Increase new riders to 2M
- Bring 100 high impact motorcycles
- Grow internationally to 50% of annual volume (through CKD and new international dealerships)
- Improve return on invested capital (top 25% of S&P 500)
- Environmentally conscious and sustainable growth (EV and improve fuel emissions)
CUSTOMER ANALYSIS

**Target:** males 35+

**Did not target women or novice riders (Harley Davidson Riding Academy)**

**USA: main market, Europe: second largest market**

**Majority of the market: Asia-Pacific market (light motorcycle and mopeds)**
COMPETITOR ANALYSIS

India
Indian, Hero, Royal Enfield

Japan
Honda, Yamaha, Suzuki

China
Jiangmen Dachangjiang (JD)

European Player
BMW
COMPETITOR ANALYSIS: INDIA

Indian
- Sales increased by 17% in 2017 while Harley Davidson’s sales decreased by 9% in 2017

Hero
- Lightweight motorcycles
- Goal: expand to Africa and South America

Royal Enfield
- Direct and strongest competitor
- Goal: Directly compete with Harley in the US (lower prices)
COMPETITOR ANALYSIS: JAPAN

- Honda, Yamaha, and Suzuki
  - Quality over quantity
  - Focus on EV, riding technologies, and ride sharing

Problem
Analysis
Recommendations
Financials
Implementation
Risks
COMPETITOR ANALYSIS: CHINA

Jiangmen Dachangjiang (JD)

- Lightweight gas and electric motorcycles, mopeds and scooters
- Strategic partnership with Suzuki as an assembler
COMPETITOR ANALYSIS: EUROPEAN PLAYERS

BMW

- High-end luxury motorcycle – concentrate on Indian markets
- Focus on EV
DISRUPTORS: MOTORCYCLE INDUSTRY
| Political          | • US government would not ratify TPP = Harley cannot reduce impact of import tariffs in Asia-Pacific  
                        • Levy of 25% on steel imports and 10% of aluminum imports  
                        • EU: impose 25% onto motorcycle import tariffs |
|--------------------|--------------------------------------------------------------------------------------------------|
| Environmental      | • Paris, Netherlands and Norway: announce to ban combustion engines by 2030  
                        • India: fully electric or hybrid by 2030  
                        • China: phase out combustion engines by 2030 |
| Social             | • People more environmentally conscious  
                        • Want lighter and utility bikes  
                        • Retirement of core customer base |
| Technological      | • Electric scooters and motorcycles to grow to $22B by 2025  
                        • Regenerative brakes, lane departure, perimeter awareness, self-balancing motorcycles |
| Economic           | • Strength of US $  
                        • Increased oil prices  
                        • Period of economic recovery in USA |
| Legal              | • Paris, Netherlands and Norway: announce to ban combustion engines by 2030  
                        • India: fully electric or hybrid by 2030  
                        • China: phase out combustion engines by 2030 |
KEY SUCCESS FACTORS

Growth

Profitability

Sustainability

Loyalty
CUSTOMER PROFILE

Current

Male
35 years & up
Has the financial means to purchase a Harley
CUSTOMER PROFILE: TARGET DIVERSE CUSTOMERS

**Millenials**
- Customization
- 18-25 years old
- Tech savvy
- Cool
- Easy-going
- Connected
- Environmentally friendly

**Women**
- Equality
- Easy to use
- Light-weight
- Trendy
- Accessible
- Customization

**Novice**
- Easy to learn
- Easy to ride
RECOMMENDATIONS

Acquire “Zero Motorcycles”
Modify variety based on customer segment
Modify materials
Strategic partnership with key market players: TESLA
Acquire “Store-Dot” for battery and quick charge
Partnership with top brands in multimedia and hardware to increase the “Harley Experience”
Open two new factories in Africa, Europe
Leverage “HDFS” in emerging markets
KEY SUCCESS FACTORS

- Growth
- Profitability
- Sustainability
- Loyalty
# EVALUATION OF RECOMMENDATIONS

<table>
<thead>
<tr>
<th>Recommendation</th>
<th>Growth</th>
<th>Profitability</th>
<th>Sustainability</th>
<th>Loyalty</th>
</tr>
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<tbody>
<tr>
<td>Acquire “Zero Motorcycles”</td>
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<tr>
<td>Modify materials</td>
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<tr>
<td>Partnership with TESLA</td>
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<tr>
<td>Acquire Store-Dot</td>
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<tr>
<td>Partnership to enhance “Harley Experience”</td>
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<tr>
<td>Factories in Europe &amp; Africa</td>
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<tr>
<td>Leverage “HDFS”</td>
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</table>
ASSUMPTIONS

• Strategic partnerships – aligned values; acquisition valued on comparative sales (90M)

• Heavy spend in initial 3-5 years – R&D, Restructuring, Marketing, Interest payments

• Synergies creation come into effect from 3rd-4th Year onwards – based on elimination of waste, value added through core competencies

• Main Cost savings stem from – Synergies, Build Design, Individual CKD
# Implementation: Costs

<table>
<thead>
<tr>
<th>Implementation type</th>
<th>Time</th>
<th>Amount</th>
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</thead>
<tbody>
<tr>
<td>Change Management team</td>
<td>Annual 3-4 Yrs</td>
<td>300-350K</td>
</tr>
<tr>
<td>Restructuring cost</td>
<td>Annual 3-5 Yrs</td>
<td>150-250K</td>
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<tr>
<td>R&amp;D investment (EV and build design)</td>
<td>Annual 3-4 Yrs</td>
<td>25-30M</td>
</tr>
<tr>
<td>Marketing</td>
<td>Annual</td>
<td>1.5M</td>
</tr>
<tr>
<td>Factory build</td>
<td>2020-2024</td>
<td>10-20M</td>
</tr>
<tr>
<td>Retail stores</td>
<td>2023-2024</td>
<td>5M</td>
</tr>
<tr>
<td>Partnership costs</td>
<td>One time</td>
<td>1.5M</td>
</tr>
<tr>
<td>Customer Survey</td>
<td>One time</td>
<td>50-100K</td>
</tr>
<tr>
<td>Website modification</td>
<td>One time</td>
<td>50K</td>
</tr>
<tr>
<td>Zero Motorcycle and Store-Dot acquisition</td>
<td>One time</td>
<td>1.5-2B</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>2062-2075M</strong></td>
</tr>
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</table>
## FINANCIAL

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
<th>2024</th>
<th>2025</th>
<th>2026</th>
<th>2027</th>
<th>2028</th>
</tr>
</thead>
<tbody>
<tr>
<td>Temporary Inefficiencies</td>
<td>35-45</td>
<td>25-30</td>
<td>10-15</td>
<td>0-5</td>
<td></td>
<td></td>
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<tr>
<td>Restructuring</td>
<td>165-185</td>
<td>70-90</td>
<td>25-35</td>
<td>0-15</td>
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<tr>
<td>Total costs</td>
<td>200-230</td>
<td>95-120</td>
<td>35-50</td>
<td>0-20</td>
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</tr>
<tr>
<td>Annual Cash Savings</td>
<td>25-55</td>
<td>50-65</td>
<td>75-90</td>
<td>105-120</td>
<td>110-115</td>
<td>35-60</td>
<td>35-60</td>
<td>35-60</td>
<td>35-60</td>
<td>35-60</td>
<td>35-60</td>
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</tbody>
</table>

Increase of 45% Net income by 2027
IMPLEMENTATION: ACQUISITIONS AND PARTNERSHIPS

• Acquire Zero Motorcycle
  • Leverage distribution of 30 countries and use EV technology to create new Harley-Davidson product line
  • Absorb Zero’s technologies and implement in all Harley motorcycles
    • Regenerative brakes
    • Lane departure systems
    • Perimeter awareness
    • Self-balancing motorcycles

• Acquire Store-Dot (battery and fast-charging company)
  • Use new technologies to create “less than 20 minutes” charging motorcycles and mopeds
# IMPLEMENTATION: ACQUISITIONS AND PARTNERSHIPS TIMELINE

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Propose offers for both companies</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Acquire both companies</td>
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<tr>
<td>Hire change management team and HR consultants for company absorption</td>
<td></td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
</tr>
<tr>
<td>Create new line of products using new technologies</td>
<td></td>
<td></td>
<td></td>
<td>✔️</td>
</tr>
</tbody>
</table>

**2018**: Propose offers for both companies

**2019**: Acquire both companies

**2020**: Hire change management team and HR consultants for company absorption

**2021**: Create new line of products using new technologies
IMPLEMENTATION: CUSTOMER SEGMENT MODIFICATION

“...industry in entering a transition phase where quality should override quantity” – Chiaki Kato, President of Honda

• 100 brands by 2027 – too high
• Stay loyal to Harley-Davidson’s values and brand
• Create fewer models but more customizable motorcycles based on customer needs and region needs
  • India, Europe and Africa
## IMPLEMENTATION: CUSTOMER SEGMENT MODIFICATION TIMELINE

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
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</thead>
<tbody>
<tr>
<td>Create customer customization survey</td>
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<tr>
<td>Create customizable website to buy online motorcycles</td>
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<td></td>
</tr>
<tr>
<td>Create marketing plan for diverse populations and regions</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Execute diversity motorcycle plan</td>
<td></td>
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</tbody>
</table>
IMPLEMENTATION: REVOLUTIONIZE EXISTING BUILDS AND FEATURES

• Create new partnerships with market leaders in multimedia, sound, and entertainment industries (such as Bose and Sony)

• Use R&D to develop “The Harley Experience”
  • Use noise-cancelling technologies to create new, enhanced helmet
  • Create new multi-media motorcycle system
  • Use crash-control system to alert emergency units in event of a crash
  • R&D to develop new motorcycle materials
    • Reduce dependencies in aluminum and steel by using materials such as carbon fiber
# IMPLEMENTATION: REVOLUTIONIZE EXISTING BUILDS AND FEATURES TIMELINE

<table>
<thead>
<tr>
<th>Build partnerships with Bose and Sony</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
</tr>
</thead>
<tbody>
<tr>
<td>Develop “The Harley Experience”</td>
<td></td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>Develop new motorcycle materials</td>
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</tbody>
</table>
IMPLEMENTATION: OPEN TWO NEW CKD FACTORIES IN EUROPE AND AFRICA

• Currently no factories in these regions

• Start manufacturing mopeds in greater quantities than motorcycles for Europe and Africa

• Use local resources for the manufacturing
  • Build retail stores around Africa and Europe

• Using the new factories and distribution channels, provide HDFS capabilities in these regions

• Marketing plan to attract new customers
## Implementation: Open Two New Factories in Europe and Africa Timeline

<table>
<thead>
<tr>
<th>Source for plant locations</th>
<th>Contract company to build factories</th>
<th>Build new factories</th>
<th>Build retail stores</th>
<th>Marketing campaign to attract new customers</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2018</td>
<td>2019</td>
<td>2020</td>
<td>2021</td>
</tr>
</tbody>
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- **2018**
  - Source for plant locations
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- **2019**
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- **2024**
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  - Marketing campaign to attract new customers
- **2025**
  - Build new factories
  - Marketing campaign to attract new customers
- **2026**
  - Build new factories
  - Marketing campaign to attract new customers
- **2027**
  - Build new factories
  - Marketing campaign to attract new customers

*Note: Each step is marked with a green checkmark.*
## Risk and Contingencies

<table>
<thead>
<tr>
<th>Risk</th>
<th>Severity</th>
<th>Contingency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lose current loyal customers</td>
<td>Medium</td>
<td>Focus on brand image and positioning in our communications through marketing plans</td>
</tr>
<tr>
<td>Customers will turn to Royal Enfield for motorcycles because of their low price</td>
<td>High</td>
<td>Harley Davidson to emphasize quality and brand competencies through “The Harley Experience”</td>
</tr>
</tbody>
</table>
Given the rapid industry changes and disruptions, is the 10-year plan a recipe for success and long-term growth?

What changes should be made to the competitive strategy?
**KEY TAKEAWAYS**

- Acquire “Zero Motorcycles”
- Modify variety based on customer segment
- Modify materials
- Strategic partnership with key market players: TESLA
- Acquire “Store-Dot” for battery and quick charge
- Partnership with top brands in multimedia and hardware to increase the “Harley Experience”
- Open two new factories in Africa, Europe
- Leverage “HDFS” In emerging markets
The Harley Experience:
It’s not just a motorcycle, it’s a lifestyle