

Harley Davidson: Great Opportunities in a Trip Through Disruption

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Problem statement

- ▶ Harley is currently facing a disruptive landscape. How to enter new markets, provide new product lines without alienating Harley's current customers, being a great steward of your iconic brand?

Market positioning

Known for: *Big engines, big sound*

Become: *Lighter, faster, bolder*

Our recommendation

1. Enter Indian and Chinese market
2. Enter EV motorcycle segment
3. Build upon great reputation to expand into new target market
4. Bring in virtual reality into showrooms to allow for customization and the « Harley experience »

Executive Summary

Issue	Recommendation
Where and how do we grow?	In addition to strategic plan – Move into Indian and China markets
Focus on electric or autonomous vehicles?	Focus on electric vehicles as the technology is not there yet and more investigation on legal required for autonomous vehicles.
What products do we focus on?	Electric vehicles (Livewire) and under 350cc
How to bring touch and feel to Harley physical locations?	Virtual reality headsets to design the dream bike and have the “Harley experience”
How to build on 115 th birthday?	Dad’s and sons/daughters marketing campaign in North America

10,000 Foot View

- ▶ Iconic US brand and history
- ▶ Known for design and customization – motorcycles not just transportation
- ▶ Touch and feel is important to customers
- ▶ Declining North American sales
- ▶ 67 countries around the world
- ▶ 2 Branches: Harley Davidson Motor Company (HDMC) & Harley Davidson Financial Services Company (HDFS)

You asked:

- ▶ Is the 10 year plan and accelerated strategy a recipe for success and long-term growth at Harley?
- ▶ What changes should Matt make to Harley's competitive strategy?

You asked:

- ▶ **Is the 10 year plan and accelerated strategy a recipe for success and long-term growth at Harley?**
- ▶ YES

- ▶ **What changes should Matt make to Harley's competitive strategy?**
- ▶ Expand into India and China
- ▶ Adjust brand positioning – stay in high quality, higher cost - get ready for EV

Assumptions

- ▶ China is a new market best entered through joint-venture and does not require fixed distributors
- ▶ Focus is on testing new markets to find the right mix, learnings can be applied to North America.
- ▶ Already manufacture in China and so no import tariffs to sell motorcycles in China
- ▶ Trans-Pacific Partnership, tariffs, and political climate to remain the same
- ▶ Franchise model is used for dealerships
- ▶ Costs are only for India and China initial roll out with exception of North America marketing campaign
- ▶ Costs are only for new additions to “More Roads to Harley Davidson” plan

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Big opportunities, big sound

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KATHLEEN

Where are we now?

Polaris

- Purchased *Indian* brand – iconic Indian motorcycle
- Growth in the US

Suzuki

- Partnership with Jiangmen Dachangjiang (JD)
- Lightweight gas and electric motorcycles
- 23.5% of the Chinese market

Honda

- JV with Hero Motocorp – top motorcycle manufacturer
- Lightweight and scooters under 500cc

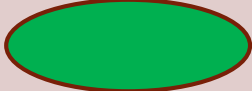
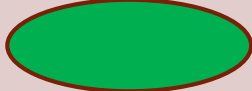






Royal Enfield

- Dominant market force 250-500cc
- Growing at 23%, decrease in over 350cc but increase of 26% for up to 350cc

10-year plan: 5-point plan for 2027

- Increase number of new Harley riders
- 100 'high impact' motorcycles to market
- Grow international business to 50% of Harley's annual volume
- Improving ROI capital - efficiently allocate capital resources and maintain discipline in their future investments
- Grow business in an environmentally conscious and sustainable way

Decision Criteria

	Growth	Ease of Entry
India		
China		
Latin America		
Africa		

Why India and China?

- ▶ China and India together represent \$16.2 billion of market value in Asia Pacific region
- ▶ Growing middle class
- ▶ Western luxury branded products
- ▶ Fits with EV ambitions
- ▶ Strategic partner in India
- ▶ Go in with under 350cc

DO NOT DO! Latin America and Africa

- ▶ No established partnerships
- ▶ Not as many facilities
- ▶ Large competitive barriers



Stop!!!

Focus on Electric Vehicle technology

- ▶ Increased demand – estimated demand of \$22 billion USD
- ▶ Policy and regulation changes
 - ▶ Banning of combustion engines in European Countries, India and China – potential for others to follow
- ▶ Need to keep quality and not stray from classic stylings of its product line

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Smoothing the ride into a strong
global presence

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Snap shot

- ▶ Decline in sales of 6.92% from 2016 to 2017
- ▶ Increase on motorcycle average retail price
- ▶ Increase regulatory policies
- ▶ Increase in operating costs due to aluminum and steel tariff of 15 to 20 million
- ▶ EU tariffs costs increase of 30 to 45 million
- ▶ Expected extra costs of 90 to 100 million
- ▶ 10 year plan to increase revenue

Additional costs of recommendation

ITEM	COSTS
Marketing budget	5% of expected revenue
Dealerships in India – total of 45 in 3 years	\$5M
Dealerships in China - total of 45 in 3 years	\$5M
Chinese consulting firm	\$3 to \$7M
Chinese manufacturing facilities	\$200 to \$250M
Virtual reality technology in (200) USA showrooms	\$5 to 10M
Total additional costs of implementing our plan	\$270M

Roll out plan

	Year 1	Year 2	Year 3	Year 4	Total
Chinese consulting firm	1.75	1.75	1.75	1.75	7
Marketing		2.5	1.75	1.75	5
Chinese dealership		2.5	1.25	1.25	5
Indian dealerships		2.5	1.25	1.25	5
200 USA Virtual Show Rooms		50	50		100
Manufacturing facility or CKD			200		200

Out of the box

- ▶ Joint-venture with BMW and local company to enter into Asian market with a pilot moped and scooter share program
- ▶ Use the learnings to bring in scooter share and bike-share program into Canada

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More roads to Harley Davidson

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MORGAN

North America: Growing Sales Domestically

- ▶ “Driving with Dad” campaign
- ▶ Leverage current aging male customers to grow younger customer base in United States
 - ▶ Currently drive the “Touring Motorcycles” – larger, heavier motorcycles
- ▶ 35 year old female and male drivers who are interested in lighter motorcycles that are more fuel efficient or electric powered
- ▶ Advertisements will feature the Dad riding his touring motorcycle and daughter/son on the newer line of products

North America: Digital to Dealerships

- ▶ Harley Davidson's product is seen as a luxury item
- ▶ Customization is important to the Harley Davidson's customers
- ▶ Customers like to touch and feel products, however this is almost impossible with customized products until the item is produced
- ▶ SOLUTION: Virtual Reality!
 - ▶ Allows the customer to visualize and experience the product before it is produced

North America: Digital to Dealerships

Year 1

- Source existing Virtual Reality technology and design in-store experience

Year 3

- Analyze customized sales performance before expanding to more stores

Year 2

- Roll out to 200 stores

**Using virtual reality to enhance the customer experience
and increase customized product sales**

India Implementation

- ▶ Already have partner with Alta Motors in India
- ▶ Question today is how to grow sales?
 - ▶ Need for dealerships in Tier 1 and 2 cities for customers to experience the products
 - ▶ Offering traditional product, and focusing on the street motorcycles (under 350 cc) – which are meant for urban and city riding

India Implementation Timeline

Year 1

- Open 25 dealerships
- Work with local Marketing agency to create campaigns
- Bollywood film product placement of new EV motorcycle "Livewire" and lighter motorcycle products

Year 3

- Open 45 dealerships
- Continuing to have local marketing campaigns to support sales

Year 2

- Open 35 dealerships
- Marketing to continue in Bollywood films and out of home advertisements such as billboards

China Implementation

- ▶ Currently Harley Davidson has no sales in China
- ▶ In China Joint Ventures are needed to enter the market
- ▶ Joint Venture partner will offer Harley Davidson the ability to enter the market and provide valuable knowledge on EV within the Chinese market

China Implementation Timeline

Year 1

- Hire Consultant to understand how to market works
- Find a JV partner

Year 3

- Open 35 dealerships
- Build a Complete Knock Down plant or manufacturing plant

Year 2

- Open 25 dealerships
- Import Harley Davidson product and start to recognize sales in market

Year 4

- Open 45 dealerships

Risks and mitigations

Risk	Impact	Probability	Mitigation
Cybersecurity Website, store systems Products especially as products become connected to the Internet of Things	H	H	<ul style="list-style-type: none"> • 2 factor identification • Encrypted data • Firewalls
Regulation/Policy Changes	H	M	<ul style="list-style-type: none"> • Ensuring legal team and local offices stay current on changes
Iconic Brand Dilution	H	L	<ul style="list-style-type: none"> • All design and marketing will align with the classic styling of products

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Journey into the future

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MORGAN

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