Harley Davidson: Great Opportunities in a Trip Through Disruption

MATT LOVATICH, CEO HARLEY DAVIDSON
WILWAKEE, WISCONSIN
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The word that comes to mind is ‘stewardship’. None of us at the company created this great brand. It is an incredible responsibility to preserve and protect the brand, the value and the power of the brand, and the loyalty and respect and the trust of our customer.

Matt Levatich, CEO of Harley Davidson
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»
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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.
"Big opportunities, big sound"

Kathleen
**Where are we now?**

<table>
<thead>
<tr>
<th>Company</th>
<th>Status</th>
</tr>
</thead>
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<tr>
<td><strong>Polaris</strong></td>
<td>Purchased <em>Indian</em> brand – iconic Indian motorcycle</td>
</tr>
<tr>
<td></td>
<td>Growth in the US</td>
</tr>
<tr>
<td><strong>Suzuki</strong></td>
<td>Partnership with Jiangmen Dachangjiang (JD)</td>
</tr>
<tr>
<td></td>
<td>Lightweight gas and electric motorcycles</td>
</tr>
<tr>
<td></td>
<td>23.5% of the Chinese market</td>
</tr>
<tr>
<td><strong>Honda</strong></td>
<td>JV with Hero Motocorp – top motorcycle manufacturer</td>
</tr>
<tr>
<td></td>
<td>Lightweight and scooters under 500cc</td>
</tr>
<tr>
<td><strong>Royal Enfield</strong></td>
<td>Dominant market force 250-500cc</td>
</tr>
<tr>
<td></td>
<td>Growing at 23%, decrease in over 350cc but increase of 26% for up to 350cc</td>
</tr>
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There is a strong competitive landscape to succeed Harley Davidson needs to differentiate themselves and get in now.
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

Harley has an ambitious plan – need to make sure the new goals do not make you forget about where you are doing well
## Decision Criteria

<table>
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<tr>
<th>Region</th>
<th>Growth</th>
<th>Ease of Entry</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td><img src="green.png" alt="Green" /></td>
<td><img src="green.png" alt="Green" /></td>
</tr>
<tr>
<td>China</td>
<td><img src="green.png" alt="Green" /></td>
<td><img src="yellow.png" alt="Yellow" /></td>
</tr>
<tr>
<td>Latin America</td>
<td><img src="yellow.png" alt="Yellow" /></td>
<td><img src="yellow.png" alt="Yellow" /></td>
</tr>
<tr>
<td>Africa</td>
<td><img src="yellow.png" alt="Yellow" /></td>
<td><img src="brown.png" alt="Brown" /></td>
</tr>
</tbody>
</table>
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

Largest growth potential and opportunity
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

Need to start now or you could be left behind
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»
“Smoothing the ride into a strong global presence”
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

Hard market conditions have increase costs and reduce revenue
## Additional costs of recommendation

<table>
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<tr>
<th>ITEM</th>
<th>COSTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marketing budget</td>
<td>5% of expected revenue</td>
</tr>
<tr>
<td>Dealerships in India – total of 45 in 3 years</td>
<td>$5M</td>
</tr>
<tr>
<td>Dealerships in China - total of 45 in 3 years</td>
<td>$5M</td>
</tr>
<tr>
<td>Chinese consulting firm</td>
<td>$3 to $7M</td>
</tr>
<tr>
<td>Chinese manufacturing facilities</td>
<td>$200 to $250M</td>
</tr>
<tr>
<td>Virtual reality technology in (200) USA showrooms</td>
<td>$5 to 10M</td>
</tr>
<tr>
<td><strong>Total additional costs of implementing our plan</strong></td>
<td><strong>$270M</strong></td>
</tr>
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Dealerships will be in a franchise model
### Roll out plan

<table>
<thead>
<tr>
<th></th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chinese consulting firm</td>
<td>1.75</td>
<td>1.75</td>
<td>1.75</td>
<td>1.75</td>
<td>7</td>
</tr>
<tr>
<td>Marketing</td>
<td>2.5</td>
<td>1.75</td>
<td>1.75</td>
<td>1.75</td>
<td>5</td>
</tr>
<tr>
<td>Chinese dealership</td>
<td>2.5</td>
<td>1.25</td>
<td>1.25</td>
<td></td>
<td>5</td>
</tr>
<tr>
<td>Indian dealerships</td>
<td>2.5</td>
<td>1.25</td>
<td>1.25</td>
<td></td>
<td>5</td>
</tr>
<tr>
<td>200 USA Virtual Show Rooms</td>
<td>50</td>
<td>50</td>
<td></td>
<td></td>
<td>100</td>
</tr>
<tr>
<td>Manufacturing facility or CKD</td>
<td></td>
<td></td>
<td>200</td>
<td>200</td>
<td></td>
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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
More roads to Harley Davidson

Morgan
“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

Leverage your current aging customer to attract younger customers and expand your product sales
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 2
- Roll out to 200 stores

Year 3
- Analyze customized sales performance before expanding to more 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 2
- Open 35 dealerships
- Marketing to continue in Bollywood films and out of home advertisements such as billboards

Year 3
- Open 45 dealerships
- Continuing to have local marketing campaigns to support sales
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 2
• Open 25 dealerships
• Import Harley Davidson product and start to recognize sales in market

Year 3
• Open 35 dealerships
• Build a Complete Knock Down plant or manufacturing plant

Year 4
• Open 45 dealerships
## Risks and mitigations

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<th>Impact</th>
<th>Probability</th>
<th>Mitigation</th>
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| Cybersecurity Website     | H      | H           | • 2 factor identification  
| store systems Products    |        |             | • Encrypted data  
| Products especially as   |        |             | • Firewalls  
| products become          |        |             | connected to the Internet of Things                                      |
| Regulation/Policy Changes | H      | M           | • Ensuring legal team and local offices stay current on changes           |
| Iconic Brand Dilution     | H      | L           | • All design and marketing will align with the classic styling of products |
“Journey into the future”

Morgan
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