Harley Davidson – Driving through or defending against disruption?

Presenting to:
CEO of Harley Davidson, Matt Levatich

Presented by:
Lukas Grote
Ina Jonalik
Johann Wiebold
Lina Zaika
Agenda

01 Situation Analysis
02 Strategic Alternatives
03 Implementation
04 Financials
Problem Statement

What to tackle? Ensure long-term growth in an disrupting industry and revue the 10 year plan
# Problem Statement

<table>
<thead>
<tr>
<th>What to tackle?</th>
<th>Ensure long-term growth in a disrupting industry and review the 10 year plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>How to solve?</td>
<td>Stay state-of-the-art motorcycle brand while transitioning into the new electric era</td>
</tr>
<tr>
<td></td>
<td>• Target “The Adventures” group: Motorcyclists of the future</td>
</tr>
<tr>
<td></td>
<td>• Expand business in China, Brazil and India</td>
</tr>
</tbody>
</table>
Situation Analysis
10-year growth plan

- Increase number of new Harley riders in the US to 2 million by 2027
- Bring 100 “high impact” motorcycles to market by 2027
- Grow the international business to 50% of Harley’s annual volume by 2027
- Improve the return on invested capital to fall in the top 25% of the S&P 500
- Grow in an environmentally conscious and sustainable way
Harley serves mainly its home market while market potential abroad.

Sales split by region:

- USA, $2,343,801,014, 61%
- Canada, $1,677,899, 4%
- EMEA, $711,747,483, 18%
- Asia Pacific, $330,126,651, 9%
- Latin America, $149,714,859, 4%
- Japan, $150,570,192, 4%
- Latin America, $149,714,859, 4%
- Canada, $1,677,899, 4%
- EMEA, $711,747,483, 18%
- Asia Pacific, $330,126,651, 9%
- Latin America, $149,714,859, 4%
- Japan, $150,570,192, 4%
- USA, $2,343,801,014, 61%
After record results in 2014 the metrics worsened – except for financial services

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2017</th>
<th>CAGR</th>
</tr>
</thead>
<tbody>
<tr>
<td>(in USD million)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td>6,229</td>
<td>5,647</td>
<td>-3.2%</td>
</tr>
<tr>
<td>Motorcycles</td>
<td>4,386</td>
<td>3,825</td>
<td>-4.5%</td>
</tr>
<tr>
<td>Parts &amp; merchandise</td>
<td>1,167</td>
<td>1,067</td>
<td>-2.9%</td>
</tr>
<tr>
<td>Financial services</td>
<td>661</td>
<td>732</td>
<td>3.5%</td>
</tr>
<tr>
<td>EBIT</td>
<td>1,281</td>
<td>891</td>
<td>-11.4%</td>
</tr>
<tr>
<td>EBIT margin</td>
<td>20.6%</td>
<td>15.8%</td>
<td>-480 bps</td>
</tr>
<tr>
<td>Net income</td>
<td>845</td>
<td>522</td>
<td>-14.8%</td>
</tr>
</tbody>
</table>
Current business model is tailored for customer needs

Value Proposition

• High quality heavy-weight motorcycle with a unique brand image standing for technical excellence and power

Target Group

• Passionate male motorcyclists (35-85) valuing the driving experience

Revenue Stream

• Motorcycle sales, merchandising products related products and services sales
• Financing options and insurance products

Value Chain

• Manufacturing, Sales and Financial Services of motorcycles and related products
The current target customer group of Harley Davidson is getting smaller

The traditional Harley Rider - Frank:

• 50 years old
• High income
• Lives in Texas, USA
• Emotionally attached to his heavy-weight motorcycle
• Rides his Harley Davidson on the weekend’s for pleasure
• Member of motorcycle club
• Goes on biking-trips with his club buddies annually
Harley Davidson’s current business model likely to be disrupted

- Technological innovations esp. EV & AV
- Economic policies & announcements
- Changing customer preferences
External factors change the distribution of motor cyclists

- Value change
- Demographic changes
- Innovations
- Regulations for combustion engines

Current target group
Other motor cyclists
What future motorcyclist look like

The Hipster – Keith:
- 27 years old
- Uses moped sharing models
- Activist for the environment
- Divines on values not on possessions

The Pragmatic – John:
- 23 years old
- Has a light-weight motorcycle to get around fast and cheap
- No emotional attachment to his vehicle

The Adventurer – Sarah:
- 25 years old
- Recent graduate from business college
- Wants to buy a mid-weight motorcycle
- Values a great riding experience & and designs
- Defines on brand images
Key Issues

Define key markets

Adapt to economic environment

Introduce new technologies appropriately
Strategic Alternatives
New customer groups need to be identified to achieve the growth targets

1. Decision: New target customer groups
   - The Hipster
   - The Pragmatic
   - The Adventurer

2. Decision: New geographic markets
   - Brazil
   - Russia
   - India
   - China
   - South Africa
New customer groups need to be identified to achieve the growth targets

1. Decision: New target customer groups
   - The Hipster
   - The Pragmatic
   - The Adventurer

2. Decision: New geographic markets
   - Brazil
   - Russia
   - India
   - China
   - South Africa
Based on the situation analysis, criteria have been identified to evaluate the alternatives.

Market size

Market potential

Harley’s fit to customer preferences

Margin
### Evaluation of strategic alternatives

<table>
<thead>
<tr>
<th></th>
<th>The Hipster</th>
<th>The Pragmatic</th>
<th>The Adventurer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market size</td>
<td><img src="#" alt="High" /></td>
<td><img src="#" alt="Medium" /></td>
<td><img src="#" alt="Low" /></td>
</tr>
<tr>
<td>Market potential</td>
<td><img src="#" alt="High" /></td>
<td><img src="#" alt="Medium" /></td>
<td><img src="#" alt="Medium" /></td>
</tr>
<tr>
<td>Harley’s fit to</td>
<td><img src="#" alt="Low" /></td>
<td><img src="#" alt="Medium" /></td>
<td><img src="#" alt="High" /></td>
</tr>
<tr>
<td>customer preferences</td>
<td><img src="#" alt="Low" /></td>
<td><img src="#" alt="Medium" /></td>
<td><img src="#" alt="High" /></td>
</tr>
<tr>
<td>Margin</td>
<td><img src="#" alt="Low" /></td>
<td><img src="#" alt="Medium" /></td>
<td><img src="#" alt="High" /></td>
</tr>
</tbody>
</table>
The Adventurer is a very promising customer group to achieve the targeted growth

<table>
<thead>
<tr>
<th></th>
<th>The Hipster</th>
<th>The Pragmatic</th>
<th>The Adventurer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market size</td>
<td><img src="https://via.placeholder.com/15" alt="High" /></td>
<td><img src="https://via.placeholder.com/15" alt="High" /></td>
<td><img src="https://via.placeholder.com/15" alt="High" /></td>
</tr>
<tr>
<td>Market potential</td>
<td><img src="https://via.placeholder.com/15" alt="Medium" /></td>
<td><img src="https://via.placeholder.com/15" alt="Medium" /></td>
<td><img src="https://via.placeholder.com/15" alt="Medium" /></td>
</tr>
<tr>
<td>Harley’s fit to customer preferences</td>
<td><img src="https://via.placeholder.com/15" alt="Medium" /></td>
<td><img src="https://via.placeholder.com/15" alt="Medium" /></td>
<td><img src="https://via.placeholder.com/15" alt="Medium" /></td>
</tr>
<tr>
<td>Margin</td>
<td><img src="https://via.placeholder.com/15" alt="Medium" /></td>
<td><img src="https://via.placeholder.com/15" alt="Medium" /></td>
<td><img src="https://via.placeholder.com/15" alt="Medium" /></td>
</tr>
</tbody>
</table>
External factors change the distribution of motor cyclists

- Value change
- Demographic changes
- Innovations
- Regulations for combustion engines
- Current target group
- Other motorcyclists
New customer groups need to be identified to achieve the growth targets

1. Decision: New target customer groups
   - The Hipster
   - The Pragmatic
   - The Adventurer

2. Decision: New geographic markets
   - Brazil
   - Russia
   - India
   - China
   - South Africa
Based on the situation analysis, criteria have been identified to evaluate the alternatives.
The Adventurer is a very promising customer group to achieve the targeted growth.

<table>
<thead>
<tr>
<th></th>
<th>Brazil</th>
<th>Russia</th>
<th>India</th>
<th>China</th>
<th>South Africa</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market potential</td>
<td>🟢</td>
<td>🟠</td>
<td>🟢</td>
<td>🟢</td>
<td>🟠</td>
</tr>
<tr>
<td>Existing infrastructure</td>
<td>🟢</td>
<td>🟠</td>
<td>🟢</td>
<td>🟢</td>
<td>🟠</td>
</tr>
<tr>
<td>Ease of market entry</td>
<td>🟢</td>
<td>🟠</td>
<td>🟠</td>
<td>🟠</td>
<td>🟠</td>
</tr>
<tr>
<td>Competitive position of Harley</td>
<td>🟠</td>
<td>🟢</td>
<td>🟠</td>
<td>🟠</td>
<td>🟠</td>
</tr>
</tbody>
</table>
New customer groups need to be identified to achieve the growth targets

1. Decision: New target customer groups
   - The Hipster
   - The Pragmatic
   - The Adventurer

2. Decision: New geographic markets
   - Brazil
   - Russia
   - India
   - China
   - South Africa
Stay state-of-the-art motorcycle brand while transitioning into new electric era
Implementation
The new target group to be addressed by a new value proposition

The Adventurer – Sarah:
• 25 years old
• Recent graduate from business college
• Wants to buy a mid-weight motorcycle
• Values a great riding experience & design
• Defines on brand images

Full-Service Leasing
• Flexibility
• Variety of products
• Independency
• No depreciation
New offering contributes to long-term growth

Full-Service Leasing

“Monthly premium, everything included except for gas!”

- Motorcycle (short contract time)
- Insurance
- Wear and tear
- Services (garage network)

Contribution to long-term growth

- Reaching customers with lower financial means
- Getting customers in touch with new products
- Increasing customer retention
Livewire to be leading model for the new electric product line

**Situation**
- Ban of combustion engines in near future
- New technologies emerging
- Customer needs shifting

**Action**
- Livewire 2019 leading model for new electric product line
- Continuous launch of new products
- No further shift into scooter & moped segment
- Subsequent implementation of new technologies
- Set-up of customer co-creation approach
Different market approach depending on current capabilities

<table>
<thead>
<tr>
<th></th>
<th>Brazil</th>
<th>India</th>
<th>China</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Services</td>
<td>☒</td>
<td>☒</td>
<td>☒</td>
</tr>
<tr>
<td>Production plant</td>
<td>✓</td>
<td>✓</td>
<td>☒</td>
</tr>
<tr>
<td>Distribution facility</td>
<td>To be outsourced</td>
<td>To be outsourced</td>
<td>✓</td>
</tr>
<tr>
<td>Dealership network</td>
<td>To be outsourced</td>
<td>To be outsourced</td>
<td>To be outsourced</td>
</tr>
</tbody>
</table>
Needs of traditional customers will still be addressed

External factors change the distribution of motor cyclists

Shift is inevitable
Example of Porsche
State-of-the-art motorcycles
Co-Creation
New business model mirrors optimized strategy

**Value Proposition**
- High quality heavy-weight motorcycle with a unique brand image standing for technical excellence and power
- State-of-the-art electric motorcycles

**Target Group**
- Passionate male motor cyclists (35-85) valuing the driving experience
- The Adventurers

**Revenue Stream**
- Motorcycle sales, merchandising products related products and services sales
- Financing options and insurance products
- Full-Service Leasing

**Value Chain**
- Manufacturing, Sales and Financial Services of motorcycles and related products
Financials
## Financials

<table>
<thead>
<tr>
<th>(in USD million)</th>
<th>2014</th>
<th>2017</th>
<th>2018e</th>
<th>2019e</th>
<th>2020e</th>
<th>2021e</th>
<th>2022e</th>
<th>2023e</th>
<th>2024e</th>
<th>2025e</th>
<th>2026e</th>
<th>2027e</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>6,229</td>
<td>5,647</td>
<td>5,365</td>
<td>5,096</td>
<td>4,842</td>
<td>5,132</td>
<td>5,132</td>
<td>5,645</td>
<td>5,440</td>
<td>5,984</td>
<td>5,984</td>
<td>5,984</td>
</tr>
<tr>
<td>Financial services</td>
<td>661</td>
<td>732</td>
<td>811</td>
<td>898</td>
<td>994</td>
<td>1,101</td>
<td>1,219</td>
<td>1,350</td>
<td>1,495</td>
<td>1,656</td>
<td>1,834</td>
<td>2,031</td>
</tr>
<tr>
<td>EBIT</td>
<td>1,281</td>
<td>891</td>
<td>848</td>
<td>805</td>
<td>765</td>
<td>811</td>
<td>811</td>
<td>892</td>
<td>860</td>
<td>945</td>
<td>945</td>
<td>945</td>
</tr>
<tr>
<td>EBIT margin</td>
<td>20.6%</td>
<td>15.8%</td>
<td>15.8%</td>
<td>15.8%</td>
<td>15.8%</td>
<td>15.8%</td>
<td>15.8%</td>
<td>15.8%</td>
<td>15.8%</td>
<td>15.8%</td>
<td>15.8%</td>
<td>15.8%</td>
</tr>
</tbody>
</table>
Risks and mitigation

I. Further changes in economic environment threaten growth plan
   → Continuous observation of economic environment

II. Traditional customer may be aliened from brand
    → Sound transition

III. Insufficient technological know-how
     → High investments in new technologies
10-year growth plan

- Increase number of new Harley riders in the US to 2 million by 2027
- Bring 100 “high impact” motorcycles to market by 2027
- Grow the international business to 50% of Harley’s annual volume by 2027
- Improve the return on invested capital to fall in the top 25% of the S&P 500
- Grow in an environmentally conscious and sustainable way