

Harley Davidson: Disruption Strategy

HEC Montreal

CSC Consulting

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Problem Statement

Is Harley Davidson's 10-year growth plan well-gearred to tackle the challenges ahead while safeguarding America's most prized brand of classic motorcycles?

Key Issues

1. Decreased ridership and sales in local market and overall customer base

2. Economic policy disruptions

3. Environmental regulations and general electrification of transport

4. Disruptive technology changes

5. Protecting the Harley brand

The New Harley

Strategy

1. New products under new brands
 2. R&D investments in new technologies
 3. Marketing effort and customer experience
 4. Expansion to key markets
-

Internal / External

<p>Strengths</p> <ul style="list-style-type: none"> • Established brand following • Large market share in the U.S. • High quality product • Well-differentiated products 	<p>Weaknesses</p> <ul style="list-style-type: none"> • Recreational product • Noise and emission of product becoming less attractive • Geographical impact on sales
<p>Opportunities</p> <ul style="list-style-type: none"> • New technologies offer path to growth • Moped market present high-growth 	<p>Threats</p> <ul style="list-style-type: none"> • TPP • Emission regulations • Tariffs / Political volatility

Strong brand following and unique product – exposed to changing market demands and emerging technologies

Geographical Analysis

Attractiveness of markets for expansion (moped and new products)

	Political	Economic	Social	Technological	Environmental	Legal
India	2	3	3	2	4	2
China	2	4	2	4	3	1
Thailand	2	2	3	3	3	2
Indonesia	2	3	2	3	3	3

1: Unfavourable 4: Favourable

India and China are most attractive markets despite certain known political and legal aspects

Alternatives

1. Create new product under new brands

- New products
- New technologies
- Market expansion

2. Acquire EV Bike Startup (Zero)

- Speed up technological advancement
- Merge operations over time

Alternatives

3. JV with Tesla for electric development

- Partnership would bring EV and AV expertise
- Manufacturing still done at HD

4. Full conversion to electric products

- Gradual ramp-down of all gas motorcycles

Decision Matrix

	Appeals to growing demographics of consumers	On-pace with latest technology trends (EV, AV)	Complies with current and upcoming emission regulation in key markets	Shield against disruptive economic policy (tariffs, TPP)	Protects Harley brand
1. Grown new products - subsidiary					
2. Acquire EV manufacturer					
3. JV with Tesla					
4. Full conversion to EV products					

Decision Matrix

	Appeals to growing demographics of consumers	On-pace with latest technology trends (EV, AV)	Complies with current and upcoming emission regulation in key markets	Shield against disruptive economic policy (tariffs, TPP)	Protects Harley brand
1. Grown new products - subsidiary	4				
2. Acquire EV manufacturer	4				
3. JV with Tesla	3				
4. Full conversion to EV products	4				

Decision Matrix

	Appeals to growing demographics of consumers	On-pace with latest technology trends (EV, AV)	Complies with current and upcoming emission regulation in key markets	Shield against disruptive economic policy (tariffs, TPP)	Protects Harley brand
1. Grown new products - subsidiary	4	4			
2. Acquire EV manufacturer	4	4			
3. JV with Tesla	3	3			
4. Full conversion to EV products	4	3			


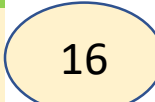
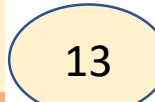
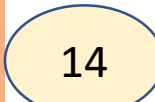
Decision Matrix

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1. Grown new products - subsidiary	4	4	3		
2. Acquire EV manufacturer	4	4	3		
3. JV with Tesla	3	3	3		
4. Full conversion to EV products	4	3	4		

Decision Matrix

	Appeals to growing demographics of consumers	On-pace with latest technology trends (EV, AV)	Complies with current and upcoming emission regulation in key markets	Shield against disruptive economic policy (tariffs, TPP)	Protects Harley brand
1. Grown new products - subsidiary	4	4	3	3	
2. Acquire EV manufacturer	4	4	3	3	
3. JV with Tesla	3	3	3	2	
4. Full conversion to EV products	4	3	4	2	

Decision Matrix

	Appeals to growing demographics of consumers	On-pace with latest technology trends (EV, AV)	Complies with current and upcoming emission regulation in key markets	Shield against disruptive economic policy (tariffs, TPP)	Protects Harley brand	
1. Grown new products - subsidiary	4	4	3	3	3	 17
2. Acquire EV manufacturer	4	4	3	3	2	 16
3. JV with Tesla	3	3	3	2	2	 13
4. Full conversion to EV products	4	3	4	2	1	 14

The New Harley

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-

Strategy

1. Creation of new products under two new brands

Harlectric - Electric bikes

Harley City by Harley Davidson -
Mopeds with combustion engines
(50-350cc) and electric version

2. Research and Development Investments

Partnership with Magna Int.

Incorporate new safety and Autonomous tech. in products: Lane departure, perimeter awareness, self-balancing, crash mitigation, Harley Link safety system

Enforce JIT and lean engineering for both new and classic product lines

Mobile connectivity (Android auto, Apple Car play)

Strategy

3. Marketing effort and customer experience

Electric motorcycle owners can swap their ride for classic gas version for the weekend

Swap done at dealerships along with new customer experiences

Expansive marketing effort

4. Expansion of activities in key markets

Harley City: Indonesia, China, Vietnam, Thailand

Open plant (CKD) in Romania

Potential opening of plant in China depending on product traction and political situation*

How to reach new customers?

New target customers*	Women	Novice riders	Millennials
Brand/Product	<ul style="list-style-type: none"> • Special editions • Harlectric 	<ul style="list-style-type: none"> • Harley City 	<ul style="list-style-type: none"> • Harley City • Harlectric
Value	<ul style="list-style-type: none"> • social 	<ul style="list-style-type: none"> • safety 	<ul style="list-style-type: none"> • environment
Initiatives	<ul style="list-style-type: none"> • PR campaigns (ex: Sturgis with F*ck Cancer organization) 	<ul style="list-style-type: none"> • Mentorship program – HD Riding Academy • Harley-Link – safety system 	<ul style="list-style-type: none"> • Ride-Swap program

*not mutually exclusive segments

➤ Sustain the long-term growth needed by Harley without alienating current customer-base

Product and services

. All numbers in Millions USD				2018				2019				2020				2021				2022				2023			
Activities	OPEX	CAPEX	Budget	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
New products & services	200	125	325																								
Harley City design																											
Harley City first production																											
Harlectric design																											
Harlectric first production																											
Invest in technologies (Magna Intl)																											
Experiential stores (VR, courses)																											
Swap your ride																											
Harley Link Safety system & other innovations																											

➤ Grow in an environmental conscious and sustainable way

Asia-Pacific market penetration plan

Validate product portfolio through online and local experts

Flagship dealerships first to demonstrate products

Social media and billboards

Key Opinion Leaders: top motorcycle magazine and automotive journalists

Sponsorship of ride-alongs and rallies

PR & Guerilla marketing

International expansion

. All numbers in Millions USD				2018				2019				2020				2021				2022				2023			
Activities	OPEX	CAPEX	Budget	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
International Expansion	250	250	500																								
Introduce Harley City to India																											
Open manufacturing plant in Romania																											
Introduce Harlectric to Japan and Australia (electric infrastructure)																											
Expand to China through partnership - CKD																											
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New Chinese plant (<i>optionnal</i>) - CKD																											
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Marketing initiatives																											

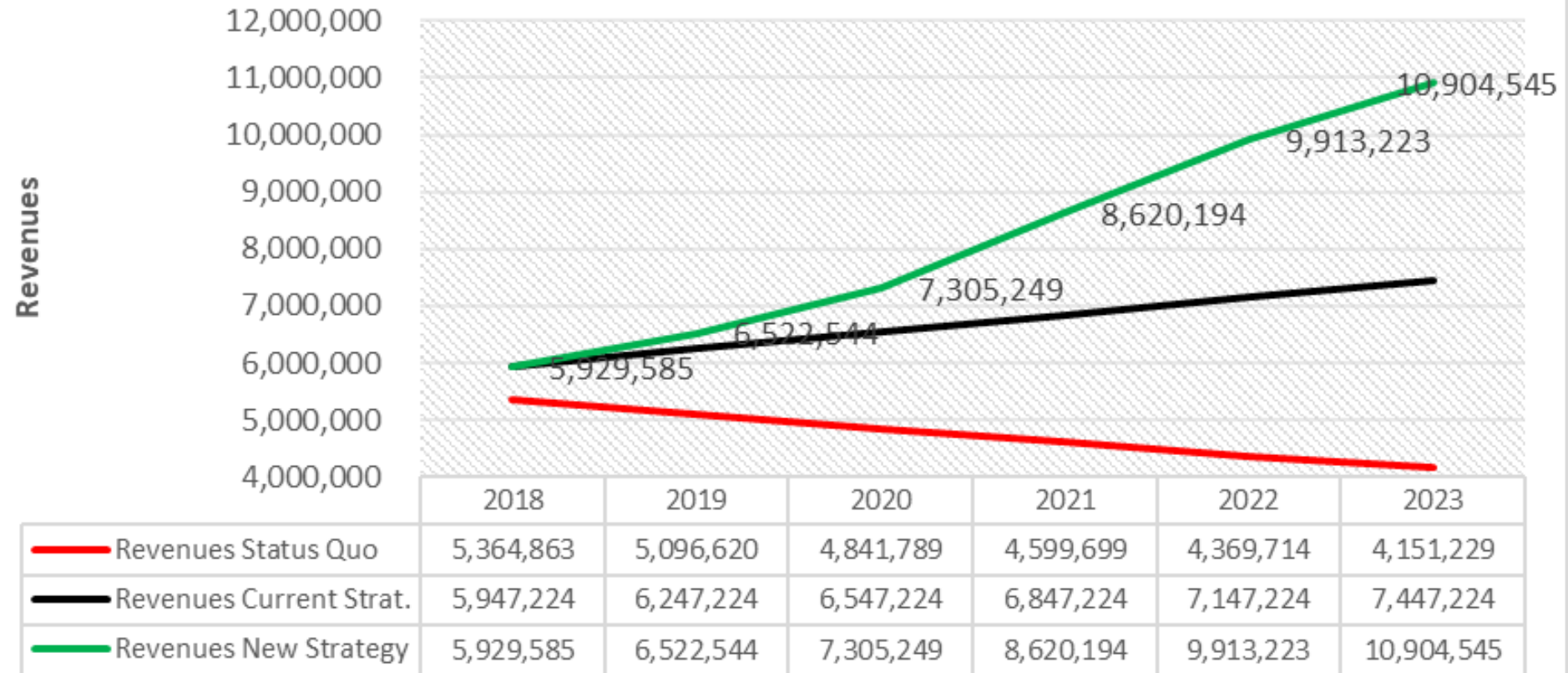
➤ International expansion where highest growth is expected

. All numbers in Millions USD				2018				2019				2020				2021				2022				2023							
Activities	OPEX	CAPEX	Budget	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
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Marketing initiatives																															
Operational Excellence	50	10	60																												
JIT + Lean World Rotating Team																															
Find Local strategic suppliers																															
Integrate 4.0 manufacturing best practices																															

	OPEX	CAPEX	TOTAL	2018	2019	2020	2021	2022	2023
Total	500	385	885						
Initial Enveloppe	550	275	825	50	125	275	250	115	70

in 000 USD	2015	2016	2017
Revenues	5,995,402	5,996,458	5,647,224
Gross Profit	2,477,135	2,402,992	2,205,348
Operating Income	1,155,695	1,048,936	891,263
Interests Costs	12,117	29,670	31,000
Net Income	752,207	692,164	521,759
in 000 USD	2015	2016	2017
Gross Margin	41%	40%	39%
Operating Margin	19%	17%	16%
Net Income / Operating	65%	66%	59%
Net Margin	13%	12%	9%
Interests on Revenues	0.2%	0.5%	0.5%

Scenarios



Proposed modified Strategy	2018	2019	2020	2021	2022	2023	Total
Revenues New Strategy	5,929,585	6,522,544	7,305,249	8,620,194	9,913,223	10,904,545	
Delta	5%	10%	12%	18%	15%	10%	
Net Income	533,663	521,803	511,367	862,019	991,322	1,308,545	3,420,175
Delta	2%	-2%	-2%	69%	15%	32%	
Net Margin Assumption	9%	8%	7%	10%	10%	12%	

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Status Quo	2016	2017	2018	2019	2020	2021	2022	2023	Total
Revenues Status Quo	5,996,458	5,647,224	5,364,863	5,096,620	4,841,789	4,599,699	4,369,714	4,151,229	
Delta	0%	-6%	-5%	-5%	-5%	-5%	-5%	-5%	
Net Income	692,164	521,759	391,319	293,489	220,117	165,088	123,816	92,862	1,193,829
Delta	-8%	-25%	-25%	-25%	-25%	-25%	-25%	-25%	

Current 10 year Strategy	2016	2017	2018	2019	2020	2021	2022	2023	Total
Revenues Current Strat.			5,947,224	6,247,224	6,547,224	6,847,224	7,147,224	7,447,224	
Delta			5%	5%	5%	5%	4%	4%	
Net Income			416,306	499,778	589,250	821,667	857,666.88	893,667	3,184,668
Delta			-20%	20%	18%	39%	4%		
Net Margin (800 M Investments)			7%	8%	9%	12%	12%	12%	

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More Value for Shareholders
 Significant increase in Revenues set path for the future

Balance NI 235,508
 Delta Rev 46%

Risks

Risks	Mitigation
New product lines dilute core customer base	Ride-Swap program, differentiated branding for new products, maintain classic lines
Consumer habits tend heavily towards public and ride-sharing	Emphasize benefits of new HarleyCity and Harlectric lines as attractive alternatives to public transit.
Low customer adoption of mopeds due to the fact that it is new to Harley	Marketing campaign geared towards young city-dwellers - unique products
Continued political instability leading to further tariffs	Contingency planning involving further conversion of plants to CKD in key regions

Recap

- Maintain original 10-year growth plan vision
 - Develop new electric and Moped products
 - Integrate leading technologies
 - Customer-experience initiatives: Ride-Swap
 - Marketing focused on new customer base
 - Total investment of \$885M

Safeguard Harley-Davidson brand while growing with new products and technology for the future

Questions & Thank You

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