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Harley-Davidson, Inc.: A Strategic Audit

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Harley-Davidson, Inc.:
A Strategic Audit

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Harley-Davidson, Inc.:
A Strategic Audit

Analysis

Business

Harley-Davidson, Inc., known for its famous bar and shield trademark, is based out of Milwaukee, Wisconsin. It is currently a public company with over 100 years of experience producing motorcycles. Harley consists of two segments: the Motorcycles & Related Products segment and Financial Services. The Motorcycles segment primarily produces standard, custom, touring, and performance motorcycles. The Financial Services segment provides financing for dealerships and retail customers. Dealerships are located around the world and sell motorcycles, accessories, and other Harley merchandise. Harley-Davidson, Inc. operates internationally in both the United States and European market and is expanding into the Asian market as well (“2009 Harley-Davidson Form 10-K”).

Mission Statement Analysis

Harley-Davidson’s vision is as follows: “We fulfill dreams inspired by the many roads of the world by providing extraordinary motorcycles and customer experiences. We fuel the passion for freedom in our customers to express their own individuality” (“2009 Harley-Davidson Annual Report”).

Based on an evaluation method created by Andrew Campbell, this mission statement can be evaluated as 17 out of 20 (Hunger, 17). A score of 17 indicates that the mission statement is exceptional at describing the business strategy and values of the corporation. Harley-Davidson accurately describes its culture of individuality, extraordinary products, and customer service. Strategic Management and Business Policy

cites that “research reveals that firms with mission statements containing explicit descriptions of customers served and technologies used have significantly higher growth than firms without such statements” (Hunger, 17). Through its strong mission statement, Harley-Davidson provides a solid guiding point for its employees to fuel the future growth of the company.

Porter’s Exercise

Porter’s Exercise Summary Table	
The Threat of New Entrants to Industry	37%
The Power of Suppliers	53%
The Power of Buyers	70%
The Threat of Substitute Products	50%
The Extent of Rivalry	70%

Porter’s exercise, from Strategic Management and Business Policy, provides an analysis of competitive forces affecting an industry. The motorcycles, parts, and bicycles industry has a relatively low threat of new entrants to the industry. The large amount of capital needed to enter the industry through the construction of plants to build the motorcycles, dealerships, and service shops will deter new entrants. The power of the suppliers for this industry is lower than the power of the buyers. There is little mobility regarding the suppliers for Harley-Davidson because of the need for large plants to mass produce motorcycles. Harley has a mission to project quality in its products, so suppliers may be limited in this way. For example, Harley could have a strategy to only utilize suppliers with an ISO 9000 rating to produce Harley products. The current suppliers may be replaced with overseas or domestic suppliers as well. If Harley wants to ensure total control and quality for its customers it could also choose in-house production. Since Harley relies on brand recognition, the buyers of Harley-Davidson motorcycles have great influence over production decisions. The threat of substitute products for Harley

motorcycles is average because of the brand recognition that Harley enjoys. If riders are not looking for the Harley-Davidson image and want a cheaper motorcycle, they may look at other brands. Rivalry in the industry is high with low-priced competitors such as Honda, Yamaha, and Suzuki. However, Harley-Davidson is an American icon with a strong image of quality and 'freedom' on the open road over the years.

Marketing Strategy

One of the largest marketing strategies for Harley-Davidson was the creation of HOG (Harley Owners Group). This allows owners to share experiences and network through rides, rallies, and other events. Another successful marketing strategy Harley created in 2000 is Rider's Edge which provides lessons for basic and advanced motorcycling skills. About 35% of the students in Rider's Edge are young adults and 37% enrolled are women ("2009 Harley-Davidson Annual Report"). This indicates that Rider's Edge is an effective marketing tool for newly targeted segments for Harley.

In 1993, Harley had also begun to purchase an interest in Buell motorcycles to break into the motorcycle racing market. This relationship was intended to produce Buell racing motorcycles with Harley-Davidson engines for performance. However, the relationship with Buell was not profitable and did not last. In 2009, Harley went through a restructuring process and exited its relationship with Buell ("Harley-Davidson USA"). In 2009, Harley also announced expansion into the Indian market as part of an international strategy.

Financial Statement Analysis

Harley-Davidson will be able to effectively handle its obligations evidenced by the current ratio of 1.91 and the quick ratio of 1.47 (see financial ratios chart on page 8).

On average, the current ratio should be near 2 and the quick ratio should be near 1, and the industry averages are consistent with those numbers. Harley's current ratio is slightly below the industry average while the quick ratio is above it, which indicates that Harley will have no issues paying its obligations. These ratios have been fairly consistent for Harley throughout the past few years, although there was a slight decrease in the ratios from 2008. The 2009 ratios still indicate that Harley is in a strong financial position to adequately cover its short-term obligations.

Regarding debt, Harley has an extremely high debt-to-equity ratio for 2009, which is calculated at 3.34. This ratio is well above the industry average of .88. This indicates that Harley has borrowed a higher percentage of its financing than most of the average companies in the industry. In the years previous to 2009, Harley's debt-to-equity ratio was very near the industry average, but in 2009 it increased dramatically. Declining revenues in 2009 and a slowing economy may have contributed to this high debt percentage.

Harley has generated profits well above the industry average for 2007 and 2008 based on its profitability ratios. However, the ratios have been steadily declining since 2007. In 2009, all of the profitability ratios have fallen below zero. The ratios are also well below the industry average, indicating that Harley's profitability is struggling. Because of these ratios, Harley is not exhibiting its ability to generate profits with the financing it receives from stockholders, its assets, or its sales.

The revenue for the Motorcycles and Related Parts segment of Harley has been steadily declining since 2007, which may indicate a deeper issue with Harley than just the slow economy. The income from continuing operations has been declining since 2007 as

well (“2009 Harley-Davidson Annual Report”). Harley is very effective at collecting receivables, as evidenced by its days sales in receivables. While the industry average was high with averages around 55, Harley had a collection period averaging 20 days. A chart of Harley-Davidson’s financial information and industry averages can be found on the next page.

Table 1 – Harley-Davidson, Inc. Financial Ratios									
	2009			2008			2007		
	HOG	Quartile	Ind. Avg.	HOG	Quartile	Ind. Avg.	HOG	Quartile	Ind. Avg.
Solvency Ratios:									
Current	1.91	MED	2.1	2.1	MED	2.2	1.82	MED	1.9
Quick	1.47	MED-UQ	1.1	1.8	UQ	1.2	1.54	MED-LQ	0.9
Current Liabilities to Net Worth	107	MED-LQ	67	124	LQ	64.6	80.2	MED	69.5
Current Liabilities to Inventory	702	LQ	252.8	649	LQ	336.4	545	LQ	256.5
Total Liabilities to Net Worth	334	LQ	100.7	176	LQ	95.1	138	LQ	89.4
Fixed Assets to Net Worth	46.7	LQ	21.5	53.7	LQ	20.6	47.9	LQ	16.1
Leverage Ratios:									
Leverage	0.77	N/A	0.47	0.47	N/A	0.61	0.58	N/A	0.61
Debt to Equity	3.34	N/A	0.88	1.76	N/A	1.55	1.38	N/A	1.6
Profitability Ratios:									
Return on Sales (Profit Margin)	-1.15	MED-LQ	2.4	11	UQ	3.6	15.2	UQ	1.5
Return on Assets	-0.6	MED-LQ	2.8	8.36	MED	5	16.5	UQ	3.7
Return on Net Worth (Return on Equity)	-2.6	LQ	7.2	30.9	UQ	16.7	39.3	UQ	6.5
Efficiency Ratios:									
Inventory Turnover (Sales to Inventory)	14.8	UQ	9.2	15.7	MED	13.2	17.6	MED-UQ	10.8
Collection Period	20.6	UQ	56.6	9.02	UQ	52.2			43.1
Asset to Sales	191.5	LQ	99.5	131.5	LQ	82.7	92.1	LQ	63.5
Sales to NWC	2.3	LQ-MED	3.2	2.05	LQ-MED	3.5	3.9	LQ	5.3
Accounts Payable to Sales	3.4	UQ	5.9	5.1	UQ-MED	6.5	5.3	MED-UQ	8.3

*All industry averages are from Dunn and Bradstreet industry norms for the respective years.

**Based on SIC Code 3571 - Motorcycles, Bicycles, and Parts.

IFAS – Internal Factor Analysis Summary

Table 2 – Internal Strategic Factors

Internal Strategic Factors:	Weight	Rating	Weighted Score	Comments
<u>Strengths:</u>				
Strong brand image	.20	5	1	
Loyal customer base	.15	5	.75	
New efforts to create more brand awareness	.05	3	.15	
Increase in marketing efforts	.10	4	.40	Rallies and events Market to women and internationally
<u>Weaknesses:</u>				
Decreasing current and quick ratios	.10	3	.3	
Past marketing efforts	.15	3	.45	Focused on men
Prices of motorcycles	.10	2.5	.25	Expensive – premium
Net Loss in 2009	.05	2	.10	
Declining image of quality	.10	3	.30	
TOTAL	1.0		3.7	

The internal strengths and weaknesses of Harley-Davidson, listed in Table 2, are about average. On a scale of one to five, the author rates the company at a 3.7. Harley has very strong strengths that are essential to the future success of the company. The loyal customer base and a very strong brand image are the most important strengths. These factors could help in the current troubled economy because consumers will shop for a brand that is familiar and trusted. Harley has also recently begun branching out and marketing to new segments such as women and younger riders. While this has become a large effort on the part of Harley, it has proven to be successful with Rider's Edge and Harley is dedicated to continuing the success achieved.

Harley also has weaknesses that will need to be minimized in order to continue its success in the future. In previous years, marketing efforts were targeted to a limited

market, mostly middle-aged men, but Harley has been remedying the situation by advertising to women and the younger market. Other weaknesses at Harley are the high prices of the motorcycles. Harley believes that a premium may be charged for its motorcycles because of its brand image (“2009 Harley-Davidson Report 10-K”). While this may be true, Harley will need to keep its prices competitive in order to attract new customers. Harley should use its strengths to its advantage and overcome its weaknesses, which is explored in the SWOT analysis.

EFAS – External Factor Analysis Summary

Table 3 – External Strategic Factors

External Strategic Factors:	Weight	Rating	Weighted Score	Comments
<u>Opportunities:</u>				
Large market of untapped women/young riders	.15	4	.6	Increased demand in India
Expanding overseas markets	.2	5	1	
Popularity in racing bikes	.1	2	.2	
Increased use of internet with young demographic	.05	2	.1	
<u>Threats:</u>				
Seasonality of motorcycle market	.1	3	.3	Sales are affected by weather conditions
Consumers have less disposable income from the recession	.2	4	.8	
Aging population	.15	5	.75	MPG, etc.
Future regulations on market	.05	2	.1	
TOTAL	1.0		3.85	

The external opportunities and threats of Harley-Davidson, listed in Table 3, are average. On a scale of one to five, the author rates the company at 3.85. Important opportunities for Harley are the expanding overseas markets and the market of women and young riders. In 2009, Harley has already expanded production overseas into India

where there is a large demand for Harley motorcycles. With the demand in India steadily increasing, Harley can use the opportunity to increase future earnings.

The threats to Harley need to be addressed and minimized in order for Harley to succeed. The seasonality of motorcycles affects sales and restricts the months that are profitable to sell motorcycles in certain climates. A major threat to Harley is the aging population since Harley has traditionally marketed specifically to middle-aged men. The recession has also affected Harley as more consumers have less disposable income to spend on luxury items such as motorcycles. Harley can use the opportunities in the market to its advantage and minimize threats in the market which is explored in the SWOT matrix.

Strategic Factor Analysis Summary

The factors that Harley-Davidson should focus on are taken from the IFAS and EFAS summaries from above. The strengths that are the most important to Harley are the strong brand image and the loyal customer base. These factors need to have both short- and long-term goals in order to keep them significant and profitable to Harley throughout the years. A weakness that Harley must minimize is the effects of past marketing efforts towards middle-aged men. Although efforts have been made in advertising towards new markets, these efforts need to continue and grow to achieve and maintain the success. Another weakness that is essential to minimize is Harley's falling sales and decreasing liquidity ratios. These weaknesses, if resolved in the near future, will have positive long-term effects for Harley.

The opportunities that Harley should take advantage of are the large market of women and young riders. According to the 2009 10-K report, Harley has increased its

efforts of marketing towards women and young riders with the results being increased ridership. Harley must continue these marketing efforts to achieve growth in these demographics. Another opportunity is the strong demand from overseas markets for Harley motorcycles, especially the expanding market of India. Harley is planning to establish between 100 and 150 dealerships overseas through the year 2014 with the goal of international sales composing 40% of total sales (“2009 Harley-Davidson Report 10-K”). A strategic threat to Harley is that the motorcycles are a luxury item and with the recent recession, many consumers have less disposable income to buy a seasonal vehicle. The aging population is also an imminent threat since the current customer base is made up of middle-aged men. Since Harley is beginning to make more marketing efforts to other demographics, this threat may soon be minimized.

Recommendations

SWOT Analysis

Harley-Davidson can take advantage of opportunities identified in the market by using its strengths to its advantage. Harley can use its increased marketing efforts to further increase the customer base by marketing towards untapped segments. For example, in 2000, women riders were purchasing about 15,000 motorcycles per year. In just 5 years, sales to women had jumped to over 30,000 motorcycles per year. In 2006, women accounted for 12% of all bike sales, not including the accessories and merchandise. This dramatic increase accounted for about \$300 million in revenues for Harley and is projected to continue growing at a rapid rate (Krauss). To solidify its marketing efforts, Harley has also been reengineering its bikes to sit lower to the ground to more easily maneuver to accommodate smaller, lighter riders. Harley should also

continue to market to young and ethnically diverse riders to expand its customer base. Harley's strong brand image is an asset that can be used to aid with the projected expansion overseas. Harley can use its image to market motorcycles in Europe and Asia, which have exhibited increasing demand for Harley motorcycles.

Harley can also overcome its weaknesses by taking advantage of market opportunities. The past marketing efforts that catered towards middle-aged men can be shifted to the growing market of women and young riders. Harley could also increase its image of quality and durability to its customers through internet marketing. The internet is a tool that can be used to market information to large masses quickly and cheaply. The current website has information for its users to communicate with other riders, find riding experiences in various cities, and to view the current product lines. Harley also has a specific webpage devoted to women riders which allows women to connect with other female riders. By keeping the website attractive and informational, Harley will be able to entice potential customers to further explore the company, its products and networks, and various events.

Harley-Davidson can use its internal strengths to avoid the imminent threats in the economy. Since 2007, revenues have been steadily decreasing with a large decrease from 2008 to 2009 during the financial crisis ("2009 Harley-Davidson Annual Report"). To mitigate this effect, Harley can take advantage of its loyal customer base to maintain sales throughout the recession and reverse the effects of the net loss that occurred in 2009. Also, Harley acknowledges that its sales of motorcycles in the United States are limited because of the seasonality of the industry. Most sales occur in the spring and summer with inventory building taking place in the fall and winter ("2009 Harley-

Davidson Report 10-K”). However, Harley could use its brand image to entice customers to purchase merchandise in the “off-season” to offset some of the seasonality trends.

Harley could also advertise its brand image to maintain the interest for riders who will be purchasing motorcycles in the coming seasons.

Harley can minimize its weaknesses by avoiding threats in the market. For example, while Harley does compete on price, it believes that the brand name and the ability to customize the motorcycles allow it to charge a premium to customers (“2009 Harley-Davidson Report 10-K”). Harley could slightly reduce the premium to accommodate the consumers through the recession or offer special discounts to loyal customers. This could entice consumers to purchase Harley motorcycles or merchandise, thus stimulating sales. Another action to minimize weaknesses is to increase the quality of the motorcycles to mitigate any risk of future regulations by lawmakers. Harley could increase quality through many avenues such as improving miles per gallon, developing clean emission technology, or improving the materials in manufacturing the motorcycles to increase safety in the event of a crash. This could reduce risk from government or industry regulations such as emissions requirements, miles per gallon requirements, safety standards, and so forth. A SWOT matrix on the next page summarizes these strategies for Harley-Davidson.

Table 4 – SWOT Matrix

<p style="text-align: center;">Internal Factors</p> <p style="text-align: center;">External Factors</p>	<p>Strengths (S):</p> <ul style="list-style-type: none"> -Loyal customer base -Marketing efforts to increase brand awareness -Marketing efforts to increase customer base -Strong brand image 	<p>Weaknesses (W):</p> <ul style="list-style-type: none"> -Net loss in 2009 -Past marketing efforts -Prices of motorcycles -Dip in the quality of motorcycles -Decreasing liquidity ratios
<p>Opportunities (O):</p> <ul style="list-style-type: none"> -Large market of women/young riders -Increasing demand overseas for motorcycles -Popularity of racing motorcycles -Increased use of internet by young population 	<p>SO Strategies:</p> <ul style="list-style-type: none"> -Use increased marketing efforts to increase customer base to market towards women and young riders. -Use strong brand image to market motorcycles overseas. 	<p>WO Strategies:</p> <ul style="list-style-type: none"> -Shift marketing strategies to cater to market of women and young riders. -Increase image of quality of Harley by increasing publicity on the internet, which is a still a growing technology.
<p>Threats (T):</p> <ul style="list-style-type: none"> -Seasonality of sales of motorcycles -Less disposable income due to recession -Aging population -Future regulations on motorcycle market 	<p>ST Strategies:</p> <ul style="list-style-type: none"> -Advertising to loyal customer base can increase sales through the recession. -Use the strong brand image to overcome the seasonality of sales for motorcycles through sales of merchandise. 	<p>WT Strategies:</p> <ul style="list-style-type: none"> -Decrease the price of motorcycles to attract customers in recession. -Increase the quality of motorcycles to mitigate risk of future regulations.

Portfolio Analysis

Harley's core customer base is men over the age of 35 and the outreach customer base is women, young adults, and ethnically diverse riders. The average income of a Harley motorcycle buyer was \$85,000 in 2009. Of these buyers, 34% had a college or graduate degree and over 75% of buyers had at least one year of education beyond high school ("2009 Harley-Davidson Form 10-K").

The new registrations for U.S. heavyweight Harley-Davidson motorcycles have been decreasing in number since 2007, although the market share of registrations for Harley has been increasing since 2007 ("2009 Harley-Davidson Form 10-K"). This indicates that Harley continues to control a large market share of the domestic heavyweight motorcycle registrations.

Harley-Davidson has a diverse portfolio regarding its motorcycles. The Motorcycle unit is made up of three types of motorcycles: Touring, Custom, and Sportster motorcycle units. The shipment numbers for each of these motorcycles has decreased from 2008 to 2009. Touring motorcycles compose 38% of the shipments while Custom motorcycles compose 41% and Sportster motorcycles compose 21% of the shipments ("2009 Harley-Davidson Form 10-K"). As evidenced by the shipment units, Harley has diversified its portfolio to mitigate its risk.

Corporate Strategy

Harley-Davidson could adopt strategies from stability to growth strategies. If Harley adopted a growth strategy, a horizontal strategy would be most beneficial. This would allow Harley to continue to expand to overseas markets. Harley could use licensing agreements to begin its overseas production and sales of motorcycles to

penetrate the growing markets. Licensing would allow Harley to break into the markets with a minimal investment. If the demand for Harley motorcycles increases with time, Harley could possibly build its own plant in the successful market and begin permanent production. Expanding overseas can be risky, especially with patents, so it would be beneficial for Harley to protect its copyrights, patents, and other intellectual rights through a carefully written licensing contract.

Although the growth strategy may seem appealing to Harley, the author recommends that Harley follow an overall stability strategy. The growth strategy may increase sales overseas, but will not solve the issue of the declining revenues domestically. The stability strategy will help Harley cope with the recent net loss in 2009, the growth overseas, the new marketing efforts, the restructuring process, and the consistently declining revenues since 2007. With so many directions and factors present, it would be beneficial for Harley to adopt a pause/proceed with caution strategy to evaluate where it stands presently and which future directions are best for Harley. Harley must review its marketing strategies to ensure that they are effective and successful. It would also be beneficial to complete market research in order to fully understand why revenues have been steadily decreasing and how Harley can turn around that risk. The stability strategy is only a temporary strategy, for six months to one year. Thereafter, Harley will need to evaluate its current position and identify if a growth strategy is the appropriate direction to follow. Once Harley is stable, it may begin using more resources to expand internationally with a solid domestic financial foundation and strategy.

Business Competitive Strategy

Regarding a business competitive strategy, Harley-Davidson should continue with its differentiation strategy going forward. Harley is able to provide superior value and service to its customers, which is consistent with a differentiation strategy. Because of this strategy, Harley is able to charge a premium for its motorcycles because of the added value of service and quality. Brand loyalty is also associated with differentiation, which is important to Harley's success in the short- and long-term. Research indicates that a differentiation strategy may lead to higher profits than a cost leadership strategy because it creates entry barriers for other competitors into the industry (Hunger, 187). To ensure that the differentiation strategy is successful, Harley will have to integrate quality into its products through performance, features, reliability and durability. It will also have to keep the customer base loyal by catering to their preferences while still maintaining the Harley-Davidson image.

Business Cooperative Strategy

Harley-Davidson should integrate a licensing arrangement into its business cooperative strategy in regards to expanding internationally. This strategy would help Harley tap into the foreign markets with minimal risk through a partnership with a licensee. Harley has previous experience with licensing its merchandise, so the transition to an international licensing strategy should be relatively easy. One risk of a licensing arrangement is that the licensee may develop its own capabilities as a result of the licensing agreement in the same business and become a competitor to Harley-Davidson. Harley could protect itself from these risks by creating contracts with the licensee. Harley

also should not license out its core competencies to ensure that they are maintained only by Harley-Davidson.

Conclusion

Harley-Davidson is a successful motorcycle company, but will need to take control of its future to remain successful. It has strong financial information, but a few areas need to be addressed such as long-term debt. With a strong brand image and a growing loyal customer base, Harley can maintain strong sales with effective marketing efforts. However, with revenues declining since 2007 and many projects currently underway, a stability strategy will help Harley evaluate its current condition and adequately prepare for the future. Differentiation has been Harley's competitive strategy in the past and should remain so in the future as well. To help expand overseas, Harley could use licensing agreements to enter into new foreign markets with minimal investments and risk. Harley-Davidson will continue for many more years if it can successfully complete the appropriate corporate and business strategies.

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