

Harley-Davidson, Inc.

3 year strategic plan

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Omar Magomedov 0727315
Section 1, Group 3

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Introduction

Harley-Davidson is a major heavyweight motorcycle manufacturer in the USA with minor markets in Canada, Europe, Asia Pacific and Latin America. It was established in 1903 by Davidson brothers in Milwaukee.

During the two wars, WWI and WWII, Harley-Davidson supported their armies with 20,000 and 90,000 military motorcycles. Harley-Davidson survived the great Depression of the 1930s. In 1986 it became for the first time publicly owned and that the same year it was able to regain share in the market of heavyweight motorcycles from Honda and other Japanese competitors most of whom entered USA in the 1970s. In 1987 it was listed on the New York Stock Exchange.

Harley-Davidson is well known for its philanthropy activities: giving education, community revitalization, support of art and environmental initiatives. Among other activities is opening of a Harley Museum which presents all major milestones in the development of the company since 1903.

Vision and Mission statement

Harley's vision, which answers the question "What do we want to become?" states:

Harley-Davidson is an action-oriented, international company, a leader in its commitment to continuously improve its mutually beneficial relationships with stakeholders. Harley Davidson believes the key to success is to balance stakeholders' interests through the empowerment of all employees to focus on value-added activities.

Harley's mission, which answers the question "What is our business?" states:

We fulfill dreams through the experiences of motorcycling, by providing to motorcyclist and to the general public an expanding line of motorcycles, branded products and services in selected market segments.

Main problems Harley-Davidson facing

After the sub-prime loan crisis of 2007, financial nightmare of 2008 and global economical crisis of 2009 Harley-Davidson had negative effects on its financial statements. Putting it simply Harley-Davidson was not doing well enough. It was not doing as well as before the advent of financial turmoil around the world. Situation especially worsened from 2007 to 2008. E.g. revenues dropped by 2.31% (from 5,726 million in 2007 to 5,594 million in 2008), net income reduced by 29.9% (from 933 million in 2007 to 654 million in 2008), EPS reduced by 25.3% (from 3.74 in 2007 to 2.79 in 2008), shipment of motorcycles reduced by 8.2% (from 330,619 units in 2007 to 303,479 units in 2008) and the credit rate for the Financial Services business segment increased to 3.41%.

In other words, Harley was losing its market share and as a result it was also losing its profitability. Therefore our three years strategic plan is aimed at market share recovery and increasing profitability of Harley through diversification of products and entering new markets. Before we go on to elaboration on how Harley could regain its market share we will conduct an external assessment of environment.

External assessment

Competitors

Since the World War I, Harley-Davidson has become the leader of motorcycle industry in the USA. Harley is traditionally known for production of heavyweight motorcycles with their major market being US.

Consequently Japanese competitors come to America by early 1970s, and suddenly become Harley-Davidson's tough competitor with their cheap and better quality products. In 1981 Harley-Davidson suffers quality issues with their product because they have to expand their production in order to compete with Japanese motorcycles. We have listed some of Harley-Davidson's competitors which produce more or less the same product with Harley-Davidson. Those competitors are Honda, Yamaha, Suzuki, BMW, Polaris, Triumph, and Ducati.

Some of companies we listed have similar product compared to Harley-Davidson. Honda, Yamaha, Suzuki, BMW and Polaris are more diversified than Harley in terms of product offerings. Ducati is more concentrated in selling motorcycles only, and become some of the toughest competitor of Harley-Davidson especially in Touring, Dyna, Sportster, and VRSC motorcycle category. Harley-Davidson's total revenue by 2008 was US\$ 5,594,307,000.

Honda is the world's largest motorcycle producer, ahead of Yamaha and Suzuki. Honda's total assets by March 2009 are 126,976,000,000 US dollars and their revenue is 107,555,000,000 US dollars. Their business is widely diversified from motorcycles, automobiles, all-terrain vehicles (ATV's), generators, personal watercraft, snowblowers, and scooters. Their motorcycle department contributes 17.2 billion US dollars. Honda also has an automobiles brand called Acura which is only made for USA market.

Yamaha is the second largest motorcycle producer, after Honda. Just like Honda, Yamaha produce more diverse products, such as ATVs, scooters, and marine and watercraft in addition to various motorcycle product lines. Yamaha also suffers decrease in their sales from Japan, America, and Europe markets just like what Harley-Davidson experienced. In 2008, Yamaha managed to obtain 15,663,000,000 US dollars total revenue and it is increase of 11.04% compared to 2007. Their motorcycle department obtained 3.3 billion US dollars total revenue.

Suzuki is the third largest motorcycle producer in the world. In 2008 they obtained 33.46 billion yen. Suzuki also has more diversified products than Harley-Davidson. They produce automobiles, ATVs, scooters, and outboard motors for boats in addition to various motorcycle product lines. They are now operating in more than 190 countries and offering cruisers motorcycles, motocross, off-road, scooter, street and touring motorcycle models.

Polaris is one of Harley-Davidson's competitors from USA. They are famous for their snowmobiles, off-road vehicles and their Victory Cruiser and touring motorcycle. They produce their motorcycle product under the brand Victory, and their motorcycle products are sold for a cheaper price compared to Harley-Davidson, and this makes their product more competitive compared to Harley-Davidson. On the other hand, Harley-Davidson is able to provide more pride to their customer by having a Harley-Davidson motorcycle.

Triumph and BMW are also the competitors of Harley-Davidson which come from UK and Germany. Both Triumph and BMW obtained 1.63 billion US dollars and 532 million US dollars respectively. In 2007, BMW sales broke the number of 100,000 units in the second year in a row.

Ducati is a motorcycle manufacturer from Italy. Ducati produces motorcycles for both road use, and motorcycle racing. Ducati also has a long history of joining Grand Prix motorcycle racing, and Superbike World Championship, moreover, they are also involved in British Superbike Championship, and AMA Superbike Championship. Their experience in manufacturing a good sport motorcycles believed to be their strength in competing with Harley-Davidson. As of 2008, Ducati Motor Holding S.P.A has obtained 533.2 million US dollars of revenue.

Industry mapping

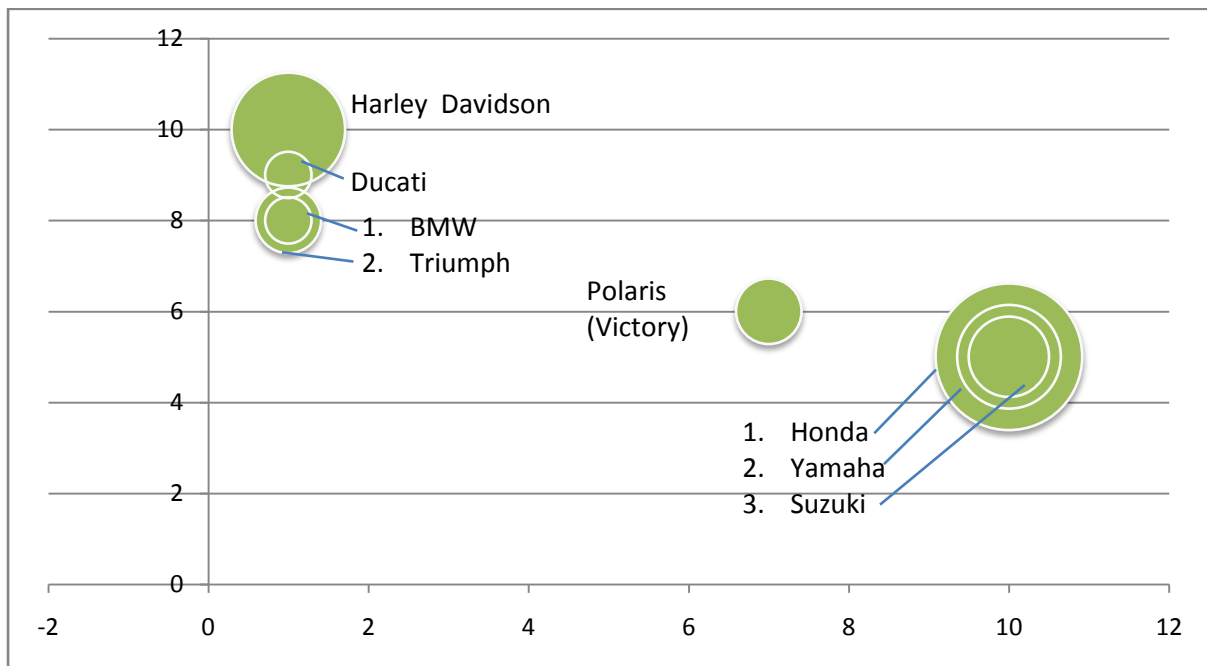
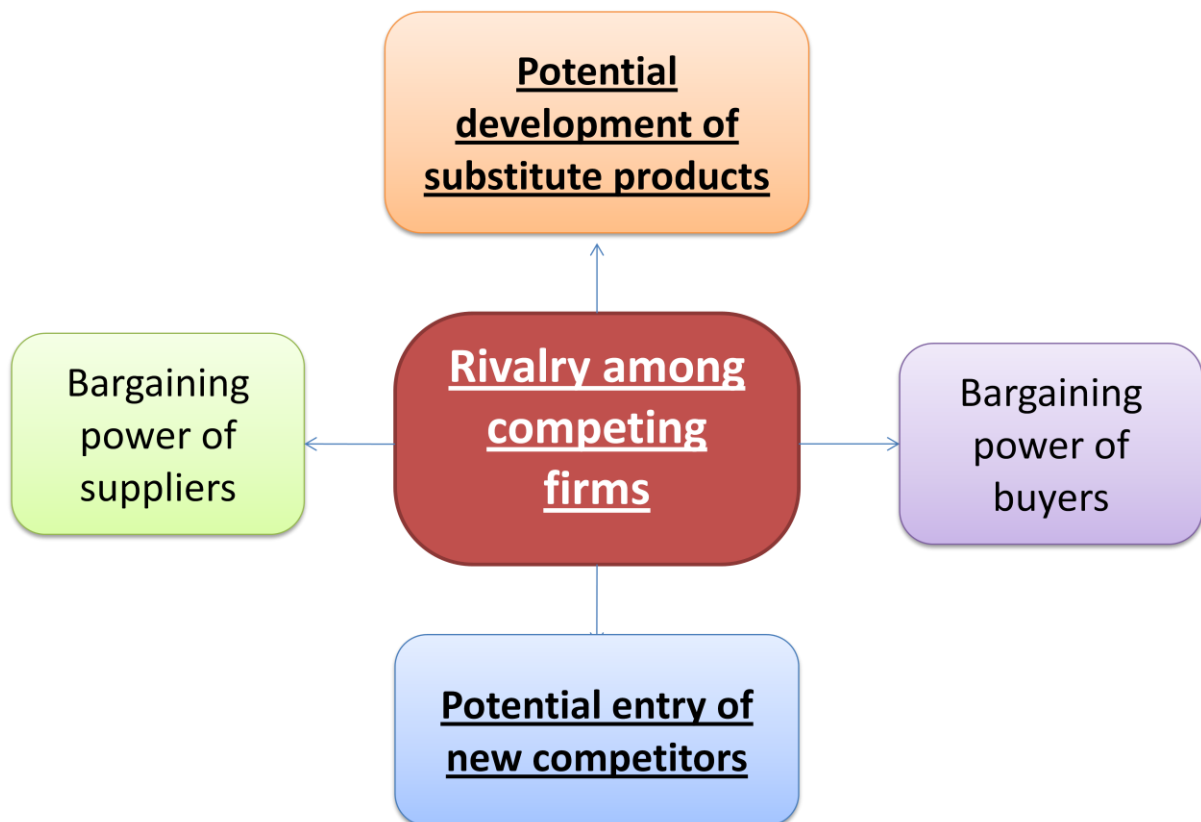


Table of revenues of competitors

Company	Revenues in US dollars
Honda	17.2 Billion
Harley-Davidson	5.59 Billion
Yamaha	3.3 Billion
Polaris	1.8 Billion
Triumph	1.63 Billion
Suzuki	1.49 Billion
BMW	532 Million
Ducati	440 Million

Porter's five forces model



Rivalry among competing firms

Harley-Davidson operates in two segments, which are Financial Services segment and Motorcycles and Related Products segment. Harley is not only competing in Motorcycles segment but also in Financial Services segment where other competitors such as various banks, insurance companies and financial institutions may have access to additional sources of capital at more competitive rates and terms that will attract new and existing consumers. For Motorcycles and Related Products segment, Harley's competitors include Honda, Yamaha, Suzuki, Kawasaki, Polaris, BMW, Triumph, and Ducati.

The presence of these large multinational corporations with exceptionally high assets boosts the degree of rivalry within the industry. According to the facts, Honda is the world's largest motorcycle producer being followed by Yamaha and Suzuki, which are the second and third largest. Because of the high degree of rivalry in the industry, most competitors will try another approach in order to increase their profit and that plan is to diversify their business models through geographical expansion or vertical expansion, leading to interests and investments in a variety of segments such as scooters, watercraft, marine equipment, all-terrain vehicles (ATVs), and industrial equipment.

Finally, because of the substantial investments in highly specific assets, exit barriers are high because as the costs of leaving may be higher than those incurred if they continue competing in the market. This increases the level of rivalry within the industry and forces competing firms to be continuously innovative in order to keep their market share.

Potential development of substitute products

In most developed countries, motorcycles, jetskis and other recreational vehicles are leisure items that lack necessity and are therefore largely dispensable or substitutable by more practical items such as cars or more cost effective means of transportation such as bicycles. This lack of necessity increases the threat of substitutes and illustrates why the market segments go into decline during economic recession.

However, even though there is a lack of necessity, when a consumer owns a motorcycle or other product, switching costs to a substitute can range from low to high. Switching to public transportation can be cheap, but switching to a luxury vehicle involves a high cost factor. Because switching costs vary depending on the alternative means of transportation chosen, the overall threat of substitutes within this industry is moderate.

Potential entry of new competitors

The industry faces moderate threats of new entrants because of moderate industry growth levels and high barriers to entry. New entrants are lured by fair market growth, especially in the budget or low-cost areas due to consumer, ownership and demographic trends towards convenient travel solutions.

Barriers to entry include large capital requirements and high fixed costs for set-up of new production facilities, an exceptionally high level of brand recognition and customer loyalty. Modes of entry include starting a new company, diversifying existing company's operations into motorcycle or other vehicle manufacturing, and beginning to sell in the host country.

Along with the tightening of emission standards results in an increase in the global costs of raw materials such as steel. As standards and product costs increase, barriers to entry become bigger obstacle for new entrants. In order to be profitable, new entrants must pass on large capital requirement, R&D costs and raw material costs and reflect these in the costs of the finished product. In the current economic recession, this becomes problematic because average consumers are not willing to spend their small disposable income on a leisure items.

Since sales are sensitive to price, another mode of entry is possible in the market for budget vehicles. However, these companies would still be subject to the large capital requirements and high fixed costs, resulting in a business that would be risky and therefore undesirable.

Bargaining power of suppliers and consumers

Harley-Davidson operates nearly every stage of the production of a motorcycle, taking raw materials such as steel and basic electrical components and shipping completed motorcycles through its extensive independent dealership network. To manufacture heavyweight motorcycles, Harley Davidson requires lots of materials from suppliers and there are many of them available in the market and willing to cooperate with Harley Davidson by offering them cheaper price. If one supplier attempted to increase its profits by charging Harley a higher price it would not be difficult for Harley to switch suppliers without a significant disruption in production.

Buyer power is weakened by a high level of product differentiation and customer loyalty to dominating brands. Because customer loyalty with respect to dealers is high, as is the demand for

specific and/or customized products, buyers' power is weakened since the consumers rely on companies to produce their preferred product. This high demand allows companies to increase their price due to high product differentiation and low standardization. Overall, buyer power is low due to sustainable competitive advantage and product differentiation which is difficult for competitors' brands to match.

SWOT analysis

Internal	
<p>Strengths</p> <ul style="list-style-type: none"> • Availability of financing through HDFS (Harley Davidson Financial Services.) • Strong brand name and brand loyalty (clubs, events and museum) • Quality control • Harley's custom segment gives owners the opportunity to customize their bikes • Harley have a effective marketing division 	<p>Weaknesses</p> <ul style="list-style-type: none"> • Operating income for Financial Services segment decreased 61 percent • Decreasing market share in America (major market for Harley) and has problem in gaining market share outside America
External	
<p>Opportunities</p> <ul style="list-style-type: none"> • The European heavyweight motorcycle market roughly 80 % of the size of the U.S. market • Women and younger riders are increasingly becoming interested in bikes • market share increasing in Europe and Asia for the last two years • Market share expansion in new markets such as India and Latin America 	<p>Threats</p> <ul style="list-style-type: none"> • Fierce competition from Japanese manufacturers (Honda, Yamaha, Suzuki, and Kawasaki) • Competitors of Harley-Davidson have larger financial and marketing resources and they are more diversified • Environmental protection laws • Discretionary spending on high-end consumer goods has declined drastically • Harley's Financial Services operations face competition from various banks, insurance companies and other financial institutions that have additional sources of capital at more competitive rates and terms.

Internal assessment

Financial ratios

Analysis of the financial ratios gives a good picture of the company's state of affairs. The following categories of ratios will be analyzed: liquidity ratios, leverage ratios, activity ratios, profitability ratios and growth percentages. In order to keep the analysis more accurate and easy to interpret and compare the comprehensive table of all the ratios will be used.

Ratio	Figure	Interpretation
<i>Liquidity ratios</i>		
Current ratio	2.065	It shows how well a company is able to meet its short term obligations. The higher the ratio the better. This ratio is especially of the key importance in a financial crisis where availability of capital can no longer be taken for granted.
Quick ratio	1.911	Similar to the above ratio, but it is a more stringent test for paying off the obligations.
<i>Leverage ratios</i>		
Debt-to-asset ratio	72.98%	The percentage of total funds provided by creditors, in other words how many percents of assets were financed by creditors. 72% is a high figure and therefore is alarming. Harley should reduce its debt burden and become more debt independent. High level of debt stifles investment activities, new initiatives and puts the company under high risk of liquidation.
Debt-to-equity ratio	2.7	It shows how much of total funds were provided by creditors versus shareholders' equity. Creditors provide by 2.7 times more funds compared to shareholders. It is again signalling that company should become more independent from its creditors and more dependent on shareholders since shareholders are long term investors and are really interested in profitability and growth of the company, while creditors are concerned with interest payment only.
Long term debt to equity ratio	1.028	The ratio says that long term debt is a bit higher than total funds provided by shareholders. In fact, shareholders' capital should outweigh the creditors' capital.
Times interest earned ratio	228.65	It shows the ability of the company to pay off its interest obligations. 228 times is a good figure and Harley-Davidson is not in danger of defaulting on its interest payments.
<i>Activity ratios</i>		
Inventory turnover	13.95	Shows how fast the company is able to sell off completely its total inventory. The figure shows that Harley's stock replenishes almost 14 times a year which is a good.
Fixed assets turnover	5.11	It shows how efficiently the company uses its

		fixed assets – plant, equipment and sales productivity. 5 times is a pretty well indicator.
Total assets turnover	0.714	This figure is less than one and it shows that a company's sales are not covering its total assets, i.e. the company has to keep more money circling in the business compared to revenues it gets out of that business. Harley should improve on this indicator through a more efficient use of labour, "green" practices and advanced manufacturing facilities.
<i>Profitability</i>		
Gross profit margin	0.345	Out of total sales 34.5% is available to company before it pays its operating expenses, taxes and interest expenses.
Operating profit margin	0.1839	18.39% of sales are available to the company before it settles its taxes and interest expenses.
Net profit margin	0.117	Net income comprises 11.7% of the total sales which is a good figure for the motorbikes industry.
ROA (also called ROI)	0.0836	Net income comprises 8.36% percent of Total assets. Compared to industry medium it is a good figure, since some companies in motorcycle manufacturing industry have ROA less than 10%.
ROE	0.30	On each dollar invested by investor there is 30 cents return.
EPS	2.8	Earnings available to owners of common stock. This is reduced figure, which previously was 3.74.
PER	0.1272	Attractiveness of firm, defined by the yield on its shares.
<i>Growth</i>		
Sales	-2.31%	Sales declined slightly.
Net Income	-29.89%	Slight decline in sales resulted in almost one third decline in profits.
EPS	-25.3%	EPS reduced by one fourth.
Dividends per share	-2.3%	Consequently dividends have also reduced.

Generally we can conclude that Harley-Davidson needs to improve on several dimensions of its financial performance. The most important are more efficient use of its facilities, liberalization of itself from the excessive debt which partly can be done by increasing volume of the common stock funds, and finally improve attractiveness of the company for new investors.

Marketing and distribution

Harley Davidson marketing efforts can be divided into three parts which are dealer promotions, customer events and also through national televisions, print, radio, direct mailings and electronic advertising including advertising in the own company website, www.harley-davidson.com. This website features an online catalogue that allows their customer to create and share product wish

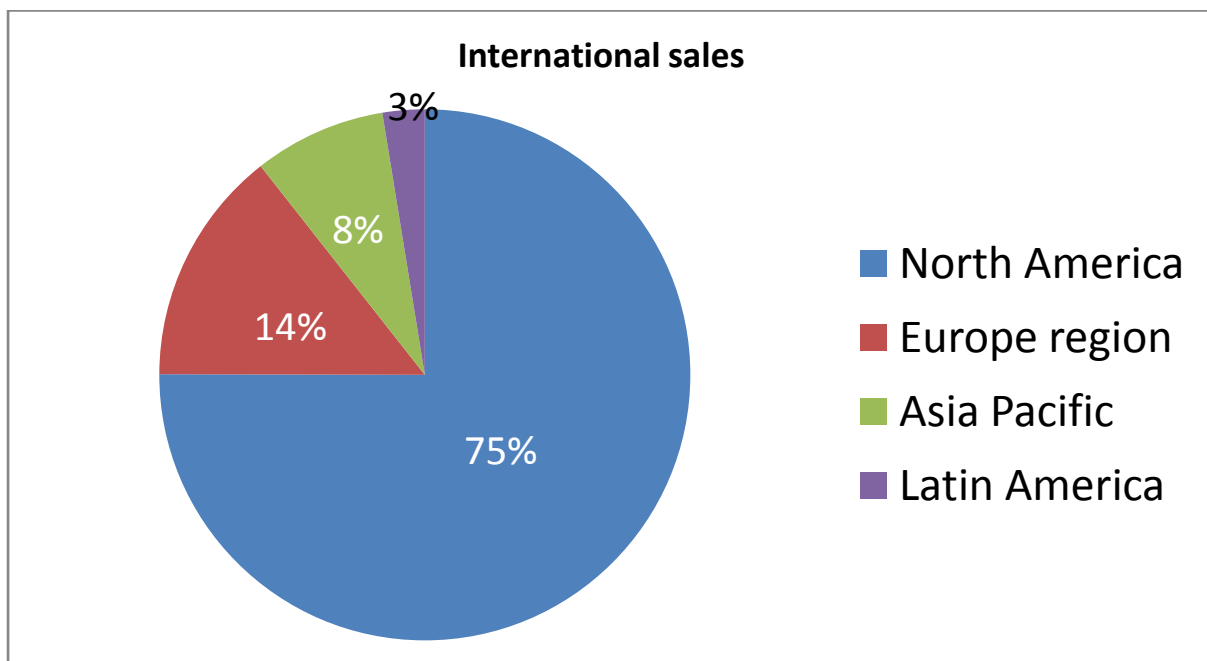
lists, use a dealer locator and also place catalogue orders. Currently there are 686 independently owned full-service dealership in the United States and that number is increasing each year. Other than the above mentioned advertisements, Harley-Davidson also takes part in all major motorcycle consumer shows and rallies by offering them sponsorship for the motorcycle racing activities and also doing special promotional events at the participated shows.

Harley Owners Group (HOG) was founded in 1983 and this group was the medium for HD to establish and promote HD products and lifestyles to peoples. Approximately they have 1.1 million members worldwide and this HOG is the largest company sponsored motorcycle enthusiast organization. Although they have many fans that adore their product and motorcycles, Harley-Davidson still have to compete with other competitors in heavyweight motorcycles segment such as Honda, Yamaha, Kawasaki and Suzuki in order to maintain dominant market share in the US.

Harley Davidson created its Academy of Motorcycling in 2000 with the aim to attract and reach for current non-riders and expert riders. Under this academy, for example, Academy Rider's Edge program offers a series of rider education experiences that provide both new and experienced riders with deeper involvement in the sport of motorcycling by teaching basic and advanced motorcycling skills and knowledge. Harley-Davidson selected their network of dealership nationwide to conduct this academy courses so that their students not only learn about the basic skills of the motorcycle but also to learn and experience the Harley-Davidson lifestyles, environment and also the product itself.

According to the company sales statistic, average U.S retail purchase of the Harley Davidson motorcycle is a married man in his mid to late forties (aged between 35 and 54) which contributes nearly two thirds of the total purchasers with a median household income around \$87000. About 12 percent of US motorcycle sales are to female buyers; it shows that this heavyweight motorcycles are not just for men, but also for women.

International sales



The above diagram reflects Harley's international sales and its spread all over the world in terms of units sold. Total number of units shipped around the world for 2008 was 313,769 motorcycles translating into 5,594.3 millions of US dollars.

As we mentioned earlier the biggest market for Harley-Davidson is their host market – USA which comprises of 75% of global sales. The second largest is Europe, followed by Asia Pacific and last – Latin America, which comprises of only 3% of global sales.

From this analysis we can conclude straightforward that a company is in need of more or less equal diversification around the world. That will help to reduce the exposure to risk and take advantage of economies of scale.

Generated strategies

- Launch of hybrid motorcycle – considering the increased awareness of the population with the environment pollution and world community pushing for lower levels of carbon emissions, launch of an environment-friendly hybrid motorcycle would be a feasible strategy. On the other hand it would also help to diversify the product line of Harley-Davidson motorcycles.
- Geographic expansion – is, as it was mentioned earlier, an optimal strategy to increase revenues by selling product in new markets and to reduce and diversify the risk of operating in one country. In our case Harley is mostly concentrated on its home market – US – and that makes it vulnerable to any financial crisis or fluctuations at home, while most of the Japanese competitors are able to effectively minimize risk of operating in one country by doing business globally.
- Diversification of products – offer more products in various lines, e.g. offering motorbikes in budget segments such as lightweight motorcycles ranging from 110cc to 450cc¹ (while Harley produces motorcycles ranging from 800cc to 1800cc). Launch of a hybrid motorcycle is partly a Diversification of products strategy but it is also responding to the peoples need for more ecologically clean product. That why launch of hybrid motorcycle was differentiated as a distinctive strategy.

Three year strategic plan – selected strategy

For Financial services

In a three year strategic plan for Harley-Davidson, we have come up with strategies for Financial Services segment and Motorcycles and Related Products segment. For Financial Services, first step is to extend the lending period. We agreed that Harley-Davidson should extend the lending period of payment for their motorcycles loans because it will give advantage for both parties. The current maximum lending period is up to 7 years, but if we can extend it to 9 or 10 years, definitely it will attract more consumers to buy Harley-Davidson products.

¹ Notation “cc” stands for cubic centimeter.

Second step is to offer competitive rates. Harley-Davidson should consider changing their lending rates so that they can offer competitive rates to potential new customer. This strategy will attract new customers to take Harley-Davidson loan rather than to borrow from competitors.

Offer convenient modes of payment to existing and new customers are our third step for Harley-Davidson Financial Services segment. Besides offering payment using credit card and in cash, Harley-Davidson also can consider payment using debit cards, internet banking, cheques and also automatic salary deduction. Rather than to go to the banks and wait until their turn just to pay the loan, they can sit at home or anywhere they want while completing the transaction at their convenience. These modes of payment definitely will make their lives easier than before.

In three years, Harley-Davidson wants to penetrate new market in order to increase their profits. In doing so, establishing a finance company in the selected market is not the best option because local banks and institutions have greater contacts base, economies of scale, great experience of dealing with their own people in their own country. Therefore what Harley-Davidson should do is to establish partnerships with the local banks and financial institutions in their selected market. This way, both parties will benefit. Harley-Davidson can offer to them something that both parties agreed on, and in return, they will help Harley to strengthen the company's financial products in the selected market.

For Motorcycles and related products

Designing a three year strategy for Harley-Davidson was a very difficult task. After deeper analysis of Harley-Davidson it became obvious that the company has not taken actions which it was supposed to take decades ago. That made the design of new strategies even more difficult and complicated.

The strategy of creation of a hybrid motorcycle was rejected outright because first of all it requires high expertise which only certain companies possess such as Honda. Harley currently is not able not only to manufacture hybrids but even lightweight motorcycles. Manufacturing ecologically cleaner hybrid motorcycles is a good strategy but not the one we can afford at Harley. Only after having skills and know-how in the area of lightweight motorcycles we can think of hybrid motorcycles.

We were in dilemma whether Harley should go for global expansion, diversification of products, redesign of its current product line or altogether. Out of all options the two most feasible and obvious were global expansion and diversification of products. Both were helping to diversify the risk and to get a new market share for Harley-Davidson.

We were also considering the following factors which were formed by the recession of 2007-2009:

1. Global markets offer the highest growth in revenues
2. Availability of capital can no longer be taken for granted
3. Discretionary spending has fallen dramatically
4. Firms that have cash or access to credit have a competitive advantage over debt-laden firms

These factors also were supporting the strategy of global expansion and diversification of products. When we decided on geographical expansion and the two countries in our scope were Brazil and India. We did scan other countries from other continents as well, but these two were the most attractive in terms of potential number of clients, economies of scale and cheap labour prices. Below is the detailed analysis of these two countries, split into five forces:

	Political	Economical	Social	Technological	Competitive
Brazil	Tax 4-17.4% Tariff high There is dispute with US government over cotton subsidies. Government protests are rare.	Per capita income \$12000 Unemployment rate 6% Price of petrol \$1.56 per litre Commercial bank lending rate 43.88% Inflation rate 6.6% Exchange rate is more or less stable in the past 10 years; Real – the Brazilian currency - tends to strengthen against dollar. ¹	Population 191 mln. Life expectancy 73 years Important economic regions are Sao Paulo, Rio De Janeiro and Federal district of Brasilia. ² Gender roles are differentiated compared to US. Relatively small pool of educated people. Several environmental issues. Brazilians value leisure time. 18% of people live on less than \$2 a day.	Road conditions vary in the cities of Brazil from medium to excellent.	There are various competitors, mostly Japanese such as Honda, Yamaha and Suzuki. They went there in the 1960s and in 1989 have opened their first factory. Moto Honda da Amazônia was the first in the world to produce flex-fuel motorcycle (it was produced in Brazil).

India	Tax 40% on a foreign company. India has close ties with US government. India has high import tariffs of 90%. Government protests are more frequent in India rather than in Brazil. Mostly protests are held over Kashmir border and massacre, others – over environmental issues, trade monopolies, and government construction projects.	Per capita income \$3700. Unemployment rate 9.8%. Price of petrol \$1.33 per litre. ³ Commercial bank lending rate 10.19%. Inflation rate 8.9%. Exchange rate is volatile for the past 10 years, with the trend of strengthening Rupi in the last two years. ⁴	Population 1,171 mln. Life expectancy 64 years. 76% of people live on less than \$2 a day.	Road conditions are not perfect, infrastructure is still being developed. Only some areas have good roads and riding conditions.	The competitive environment is much the same as in Brazil: Japanese companies have entered India since before and now they are having there strong and well established alliances with local companies. Good example can be Hero Honda, a venture of Honda with local Indian company manufacturing low cost motorcycles.
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Market share expansion in Brazil

After the thorough review of the table we have decided to go for Brazil due to a larger pool of people who are likely to afford our motorcycles, lesser taxes on foreign companies, growing economy with the adequate infrastructure and more stable environment in terms of anti-government protests. Also the latest results at Harley-Davidson for shipments by geographic region show the 47% increase for Latin America, the highest among all other regions. The second highest increase is 25% and it is for Africa and Middle East combined.

Therefore we have decided to expand our market share in Brazil. However Brazilian market for motorcycles is highly competitive. The toughest competitors there again are Japanese companies, especially Moto Honda da Amazônia. Honda went to Brazil in the 1960s and in 1989 they have opened their first factory. The reason why it was said that Harley-Davidson was sleeping all this time was that Harley-Davidson has not taken global expansion seriously as other competitors and did not trouble themselves to diversify their products.

Another serious point should be made. When we talk of entrance into a new market such as Brazil we should not be biased with the physical presence in a new country. To the surprise of a reader Harley-Davidson has been in Brazil since 1998⁵ and started manufacturing its own motorcycles there in 1999 and spare parts were sent from US. It chose the city of Manaus, free trade zone for industries. Despite being there since 1998 it is obvious that Harley did not take Brazilian market seriously, e.g. out of 132,285 manufactured motorcycles only 600 were exported to Brazil. It is difficult to judge Harley's decision about Brazil at that time. Now 13 years have passed and definitely many things in country as well as at Harley have changed.

We have a fresh look at the expansion in the Brazil. We are serious.

Diversification: manufacturing of fuel efficient low cost lightweight motorcycles

Another point is that in the last 10 to 20 years the number of financial crises, currency defaults and economic recessions have increased dramatically, and we know that in these situations discretionary spending will drop immediately and people will buy only necessity goods and services. Since Harley's products are all in luxury segment the company will suffer financial loss and that may happen over and over again. We honestly do not understand why people at Harley-Davidson did not thought of diversifying their products by producing fuel efficient low cost lightweight motorcycles. In cases of financial crisis Harley at least could rely on the sales of lightweight motorcycles not only in US but around the world. If Harley really wants to be profitable it has to change itself in order to better suit the changed reality. What is success today is not necessarily tomorrow.

Firms, like organisms, must be "adept at adapting" or they will not survive.⁶

If Harley continues to sell its heavyweight luxury motorcycles it will definitely not move away from its problems with profitability and market share. It will resemble Kodak which failed with the advent of digital cameras because it did not anticipate the drastic change in the technology. It is not too late for Harley to change itself and start manufacturing lightweight motorcycles.

At the same time we do not propose complete shift to lightweight motorcycles, Harley-Davidson should produce both kinds of motorcycles and keep their core competency in manufacturing heavy weight motorcycles. Only then we can achieve a real diversification.

Three year strategic plan

From the discussion above we came to the conclusion that the current external environment and its trends in tandem with our internal opportunities and vulnerabilities are pushing us to do two things:

1. Market share expansion in Brazil
2. Diversification: manufacturing of fuel efficient low cost lightweight motorcycles

Given these two tasks and the need to be focused on a strategy we decided to combine them into one strategy; strategy of manufacturing lightweight and fuel efficient motorcycles in Brazil.

By pursuing this strategy we can both expand market share and our presence in Brazil and diversify our product line by lightweight low cost motorcycles. Such a strategy will help Harley-Davidson to regain its losses in sales and recover its profitability which dropped by almost 30%.

Right now there are 32 distribution outlets. We need to re-examine their feasibility and effectiveness. The increased demand for our lightweight motorbikes will require well-established and well-adjust distribution network. Therefore we should concentrate our efforts on building such a network.

We also understand that the launch of low cost lightweight motorcycles under Harley-Davidson brand may hurt reputation of Harley as of producer of powerful luxury and premium products. Therefore we propose to manufacture those lightweight motorcycles under a newly created brand which is a subsidiary of Harley-Davidson. We propose a conditional name "Star" for that new brand

of lightweight motorcycles. For the first time “Star” can operate only in Brazil, later on if proven to be effective the brand can be slowly exported to other neighbouring countries and regions.

Year	Half-year	Activities
1	6 months	<ul style="list-style-type: none"> • Reviewing our strategy for Brazil, approaching our old partners, distributors, employees and creating awareness of the new strategy among them. That is a very important step, since effective communication and sharing will ensure smooth implementation of the strategy. It will also help to get the commitment of each employee and distributor and direct that communal effort in one direction. • Start conducting a marketing research on preferences and tastes of Brazilian riders. The results of that research will help us to focus on main products of interest to Brazilian consumers and as a result to better serve them. • Start negotiations with Piaggio – European manufacturer of lightweight motorcycles and mopeds based in Italy. It is a fourth largest manufacturer of motorcycles in the world and has vast experience and expertise in their industry. At the same time Piaggio is not a direct competitor of Harley. Harley will greatly benefit from the Piaggio.
	6 months	<ul style="list-style-type: none"> • Construct and upgrade of manufacturing facilities for production of lightweight motorcycles in Brazil by Piaggio.
2	6 months	<ul style="list-style-type: none"> • Construct and upgrade of manufacturing facilities for production of lightweight motorcycles in Brazil by Piaggio. • Sign contracts with local banks, financial institutions and other entities which will help to strengthen Harley’s Financial Services business segment.
	6 months	<ul style="list-style-type: none"> • Sign additional contracts, MOUs with various entities such as suppliers, distributors, or advertising agency throughout Brazil. • Adjust of machines at manufacturing facilities. • Re-examine old and set up new distribution channels not only in Manaus but throughout the major cities in Brazil.
3	6 months	<ul style="list-style-type: none"> • Create an awareness of the new lightweight motorcycles brand –“Star”. • Launch manufacturing and selling; at the same time test the reaction of consumers.
	6 months	<ul style="list-style-type: none"> • Manufacturing and selling. • Export to other regions and neighbouring countries. • Evaluation of the whole strategy.

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