



Harley-Davidson: Chasing a New Generation of Customers

On a bright summer day in Milwaukee in July of 2007, Mark-Hans Richer, 40, stepped off his black motorcycle at the corporate headquarters of Harley-Davidson, the maker of his bike and keeper of one of the world's best known brands. As he walked to the landmark red brick building he passed packs of gleaming Harleys and a number of Buells, Harley-Davidson's smaller and sportier sister brand.

This not only was Richer's first day as a chief marketing officer, it also was the first day Harley-Davidson had ever employed a chief marketing officer. Yet why did such a strong brand need a CMO if it had never had one before? As Richer strode into his office he had no illusions about the motive behind his hiring: Harley-Davidson's riders were aging, and the company saw this as a threat to its existence. Although Harley-Davidson had a record sales year in 2006 and had maintained a commanding share of the heavyweight motorcycle market for the previous decade, it needed to take new action to sustain its growth—action like investing in the kind of marketing it had not needed in its glory days.

As he sat in his new office and started studying the stacks of introductory binders, Richer knew what Harley-Davidson wanted from its investment in him—a new generation of riders and a more diverse customer base, all without losing current customers. He also knew he could not relax: the average tenure of a CMO in 2007 was only 27 months and a complete new product development cycle would take a minimum of four years.

History

William Harley and the Davidson brothers—Arthur, Walter, and William—founded the Harley-Davidson Motor Company in 1903. The company competed against dozens of start-up motorcycle manufacturers and expanded rapidly, building motorcycles aimed at leisure, sport racing, police forces, delivery services, and the military. Time and economic stresses eliminated all but the Harley-Davidson and Indian brands, which competed with ever more powerful and stylish designs.

In the years following World War II, cheap Harley-Davidson surplus military motorcycles became a platform for “bobbers,” uniquely customized bikes cut down from the stock model. In the 1950s, rebellious motorcycle clubs with names like The Boozefighters and The Galloping Goose Motorcycle Club formed, and many adopted Harley-Davidson as their dominant symbol.

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Later, some clubs became criminal gangs, such as the Hell's Angels, and projected a fierce image of violent machismo while dealing in guns, narcotics, and prostitution. Although lawlessness was rare among motorcycle owners, the image of the loner outlaw on the back of a bike became inextricably tied to Harley-Davidson's brand image.

In the 1960s, Harley-Davidson faced new competition from Japan. A shrewdly marketed influx of lighter and cheaper Japanese bikes initiated "one of the gloomiest chapters in the history of American free enterprise."¹ From 1959 to 1965, Harley-Davidson sales grew from \$16 million to nearly \$30 million, but Honda motorcycle sales increased from \$500,000 to \$77 million, shattering Harley-Davidson's market share.

Darker days were to follow. In 1969, American Machine and Foundry (AMF) bought Harley-Davidson, ushering in a new era of corporate stewardship that ultimately threatened the survival of the company. After AMF cut the work force, quality problems compounded to the point that the company's motorcycles were referred to as "Hardly Drivable." At the same time, however, Harley-Davidson motorcycles continued to be radically customized and "chopped"—the origin of the term "choppers"—and became powerful cultural symbols, as in the cult film *Easy Rider*.

In 1981, a group of 13 investors (including Harley-Davidson executives and one of the Davidson grandsons, Willie G. Davidson) bought back the company. Many people saw the return to smaller, more direct ownership as returning the company to its roots. The company leveraged its heritage by designing new models in the 1980s and 1990s that harkened back to the look and feel of bikes from the 1940s and 1950s. At the same time, it got some breathing room when it successfully lobbied the American government to impose substantial tariffs on imported Japanese motorcycles based on a claim of dumping inventory below cost.

During the 1980s and 1990s, American Baby Boomers² had enough income to enable them to buy hundreds of thousands of Harley-Davidson motorcycles in fulfillment of dreams fed by films like *Easy Rider* and *Terminator 2* and legendary bike rallies in Sturgis and Daytona. Demand for Harley-Davidson motorcycles was so great that buyers paid more than MSRP³ and waited more than a year for a new bike, as its manufacturing plants could not meet the demand. This success continued into the early 21st century, capped by Harley-Davidson's raucous 100th anniversary celebration in 2003.

The company enjoyed continued growth in the 2000s and its brand image was strong (see **Exhibit 1**), but its core customer base of Baby Boomers was aging. In 1987, the median age of a Harley-Davidson customer had been 35; by 2007, it was 47.⁴

The Motorcycle Market

The motorcycle market comprised two broadly defined categories, heavyweight bikes and sport bikes. A heavyweight bike typically had an engine displacement larger than 601cc. The larger engine meant not only greater power and faster acceleration but also the opportunity to

¹ Hunter S. Thompson, *Hell's Angels: A Strange and Terrible Saga* (New York: Modern Library, 1999), p. 75.

² Americans born during the "Baby Boom" following World War II, 1946 to 1964.

³ Manufacturer's suggested retail price.

⁴ Karen Richardson, "Living High on the Hog," *Wall Street Journal*, February 5, 2007.

load up on custom add-ons. Harley-Davidson's heavyweights were ideal for touring (taking long, leisurely pleasure rides) and cruising, sometimes known as "profiling" (showing off and being seen by others). By contrast, sport bikes were designed for speed and racing and were manufactured from lighter materials, so even with smaller engines they delivered faster acceleration and quicker handling.

In 2007, Harley-Davidson offered products in both heavyweight and sport bike categories. Its primary focus was the heavyweight category, in which it was the North American market leader with 44% share (see **Exhibit 2**). The company also produced a secondary brand, Buell, which competed in the sport bike category. Buell was founded by ex-Harley engineer Erik Buell in 1983 and was acquired by Harley-Davidson, partially in 1993 and fully in 1998.⁵

Harley-Davidson's competitors were based mainly in Europe and Japan. Brands such as BMW (Germany) and Ducati (Italy) positioned themselves on engineering precision and racing performance and produced both heavyweight and sport bikes. From Japan, the "big four" manufacturers included Honda, Kawasaki, Suzuki, and Yamaha. They competed primarily in the sport bike category, but they all offered copycat designs of Harley's styles in the cruiser space. The Japanese bikes—due to their lower price points, faster speeds, and for some, perceived quality—represented the clearest obstacle to Harley-Davidson in its objective to attract younger customers in the U.S. market.

Ironically, Harley-Davidson's strongest global market in 2007 was Japan, where it was the market leader for heavyweight bikes.⁶ The company's brand image hit an emotional chord with consumers in Japan nearly as powerfully as in the United States. Harley-Davidson was weaker in Europe, where it had just 8.2% market share. There, the general preference for smaller and sportier bikes gave the company's Buell brand a larger share (1.0%) than it had in the United States (0.7%).

Neither Harley-Davidson nor Buell had presence in large, emerging markets such as China, India, Brazil, or Russia. Global growth represented an enormous opportunity; it was possible that the company could maintain growth by simply penetrating these new markets and using its historical brand strengths to attract the "Baby Boomers" of these ever-richer societies.

Harley-Davidson Lifestyle

Although nominally a manufacturer of motorcycles, Harley-Davidson sold a great deal more: values, ideals, and lifestyles that defined the personal identities of its customers. The outlaw biker once defined the brand image, but not necessarily the main customer. The outlaw biker (as imagined in this description of 1960s-era Hell's Angels) was "... tense for action, long hair in the wind, beards and bandanas flapping, earrings, armpits, chain whips, swastikas and stripped-down Harleys flashing chrome as traffic on 101 moves over, nervous, to let the formation pass like a

⁵ "Harley-Davidson, Inc. Acquires Buell Motorcycle Company and Declares Dividend," press release, February 20, 1998, <http://www.theautochannel.com/news/press/date/19980220/press010155.html>.

⁶ "Harley Just Keeps On Cruisin'," *Bloomberg Businessweek*, November 5, 2006, <http://www.businessweek.com/stories/2006-11-05/harley-just-keeps-on-cruisin>.

burst of dirty thunder.”⁷ This represented a tiny fraction of the Harley-Davidson customer base, but one that conferred substance and legitimacy to the vast majority of its customers.

The Harley-Davidson customer not only bought the branded product but also lived a branded lifestyle embedded within a unique subculture. These customers represented the pinnacle of brand loyalty, a pinnacle few other brands could ever hope to achieve. Their loyalty embraced not just repurchase but also commitment, a psychological state in which the individual placed large stakes on continued affiliation with the brand and its community. According to a scholarly study, “visible indicators of commitment include tattoos, motorcycle customization, club-specific clothing, and sew-on patches and pins proclaiming various honors, accomplishments, and participation in rallies and other rider events.”⁸ The depth of commitment of the Harley-Davidson brand community was extraordinary. Membership was a “sanctuary in which to experience temporary self-transformation,” and riding itself became a spiritual experience that involved “the increased closeness to nature, the heightened sensory awareness, the mantric throbbing of the engine, the constant awareness of risk and the concomitant mental focus and, in group riding, the consciousness of oneself as an integral part of a larger group or purpose.”⁹

The Harley-Davidson subculture comprised not only the entire universe of Harley motorcycle owners, but also independent clubs (and sometimes gangs) with their own unique identities. These groups rarely recruited new members; rather, prospective members had to overcome barriers to entry and survive “new prospect” status by overcoming various hurdles before being accepted as full members. In 1983, Harley-Davidson created a company-affiliated club of its own—the Harley Owners Group (H.O.G.)—that was open to any Harley owners that paid dues. H.O.G. fostered close contact with Harley-Davidson management, and its members supported various social events, rides, and rallies with Harley-Davidson dealers. By 2007, H.O.G. membership worldwide reached more than 600,000, with the great majority in the United States.

Exploring Outreach and Core

Most outside observers—including Richer—thought that even with such a strong community and lifestyle there were serious challenges coming for Harley-Davidson. “The negative view is on Harley’s future, not its past or present. And the outfit has done little to shake its image with twentysomethings as Granddad’s bike. ‘They haven’t kept up with the younger riders,’ says Piper Jaffray Cos. analyst Anthony Gikas, a 44-year-old who owns two Harleys himself. Riders in their 20s, he adds, crave fast sport bikes—Ducatis and Kawasakis—and disdain the Harley brand.”¹⁰

Richer’s early days with his new team were focused on the issue of better understanding what Harley-Davidson defined as “Outreach” customers: Young Adults (18-34), Caucasian Women (35+), Hispanic Men and Women (35+), and African-American Men and Women (35+). The company’s Core segment was Caucasian Men (35+), which drew mainly from the Baby Boomer generation (who in 2007 were between the ages of 43 and 61). In previous decades, the Core

⁷ Thompson, *Hell’s Angels*, p. 3.

⁸ J. W. Schouten and J. H. McAlexander, “Subcultures of Consumption: An Ethnography of the New Bikers,” *Journal of Consumer Research* 22 (1995): 49.

⁹ *Ibid.*, p. 50; see also J. H. McAlexander, J. W. Schouten, and H. F. Koenig, “Building Brand Community,” *Journal of Marketing* 66 (2002): 38–54; A. M. Muniz Jr. and T. C. O’Guinn, “Brand Community,” *Journal of Consumer Research* 27 (2001): 412–432.

¹⁰ “Harley Just Keeps On Cruisin’.”

customer tended to be working class, but by 2007, the median household income of the Core customer had increased to \$84,300 (as compared to the U.S. median of \$52,700).

The marketing team had made efforts to connect with Outreach audiences in the previous few years and had some initial success with Harley-Davidson's Garage Parties, small women-only events held by dealers, and the Rider's Edge new rider training program. Still, the share of marketing spending planned for Outreach segments in the United States in 2007 was just 17%, with the balance aimed at holding on to the Core customer base.

Harley-Davidson had 22% share of Young Adult buyers in 2007 across all on-road motorcycles.¹¹ Attracting more Young Adults—the major focus of Harley-Davidson's outreach efforts and the biggest question hanging over the brand—would likely require more than increased spending. In 2007, the company conducted a study of Young Adults that identified barriers to buying a Harley-Davidson, including “haven't seen the right bike,” “may not belong” (i.e., may not fit into the Harley brand culture), and “dealership aversion.” Of these, dealership aversion represented the biggest barrier to conversion. Young Adults found the experience of visiting the dealership a daunting and intimidating one.¹² Other research found that Young Adults overestimated by a considerable amount the cost of the entry-level Harley-Davidson motorcycle: It was not unusual for a Young Adult to assume that “every Harley costs \$20 grand” when in fact the least expensive Harley-Davidson in 2007 (the Sportster 883 Low) was priced starting at \$6,699.

“What Do We Already Sell to Young Adults?”

By September 2007, the company's stock price was down 20% for the year and the macroeconomy seemed to be weakening every month. When Richer was presented with the challenges of the Young Adults segment, he confessed, “I was taken a little aback with what seemed to be an attitude of resignation, like a loss, almost mourning for a time gone by. It seemed like the company itself didn't think we had much to offer Young Adults and was convinced they only wanted sport bikes.”¹³ Frustrated with the attitude, Richer asked: What do we already sell to Young Adults? Surprisingly, his team did not know which models sold in greatest volume to Young Adults. The company looked at top sellers not by customer segment but rather by model family, as in the “top-selling Sportster” or “the top-selling Softail” (other families were Dyna, V-Rod, and Touring). This appeared to be an artifact of the company's historical manufacturing and engineering focus.

When the marketing team looked at Harley's top-selling bikes to Young Adults, it found a preference similar to one identified in a 2006 European study but not yet addressed: many Young Adults did not like chrome. The European study called the Young Adult segment a “black world” based on the preferred appearance of the bikes and the rebellious spirit of the riders. These Young Adults much preferred stripped down, elemental, dark bikes over the chrome cruisers sold to Core customers. The bikes that sold proportionally more to Young Adults all had this appearance across model families and price points.

¹¹ R. L. Polk registration data.

¹² Harley-Davidson internal research, September 2007.

¹³ Interview with M. H. Richer.

This preference was new in the American market. Nevertheless, Harley-Davidson Styling had already created some bikes in the portfolio that reflected the aesthetic, such as the recently introduced Nightster, Street Bob, and the older Night Train. Current product development at Harley-Davidson included some others with similar traits, such as the soon-to-be-introduced CrossBones and a blacked-out model in the Harley Sportster line called the Iron 883, developed for a moderate investment of less than \$1 million and scheduled for a January 2009 debut at a price of \$7,499 (see **Exhibit 3**). These bikes all were seen as extensions of their respective model families: Softail (Night Train, CrossBones), Dyna (Street Bob), Sportster (Nightster, Iron 883), and V-Rod (Night Rod Special).

Another internal study, which explored associations and metaphors of riding experiences, found the following aspects of the Harley-Davidson brand image especially appealing to Young Adults: (1) a transformational journey, in which riders become who they truly want to be; (2) a means of escape from a monotonous, constraining life; and (3) a way to connect to other like-minded souls.¹⁴ In that same study, Harley-Davidson found that some Young Adults, including those who owned sport bikes, characterized sport bikes as constricting and physically uncomfortable, mass produced and lacking in durability, and having an unappealing sound (“like sewing machines”).¹⁵

Perhaps even more challenging, Young Adults had a decidedly different attitude toward the brand than the Core customers. A survey conducted among Young Adults (which included both owners and non-owners) asked for agreement with the statement, “You can relate to Harley-Davidson.” Agreement was 16% for respondents under age 35, compared to 32% for respondents over the age of 35.¹⁶ Even though this younger generation was comfortable with some of the social norms surrounding Harley-Davidson’s brand image, like tattoos and piercings, there was no guarantee they wanted to follow the Boomers’ motorcycle passions.

The Opportunity with Buell

Buell was a separate brand manufactured by Harley-Davidson and sold through its dealer network. Generally light sport bikes with correspondingly lower prices, the Buell models were aimed at younger customers and the European market, i.e., segments not typically interested in the main Harley brand. The Buell brand and logo were distinct from, and did not share any design elements with, the Harley-Davidson brand. That is, Buell bikes did not have any Harley-Davidson visual branding on them.

Buell bikes were positioned on technological innovation and superior handling, centered on what Buell called the “Trilogy of Technology”: mass centralization, low unsprung weight, and frame rigidity. Product innovations included a patented Zero Torsional Load (ZTL) perimeter floating front disc brake system that reduced unsprung weight on the front wheel, and a creative strategy of lowering weight (and enhancing performance) by making one part perform two tasks, such as putting fuel in the frame itself instead of in a separate fuel tank.¹⁷ Because Buell bikes

¹⁴ Harley-Davidson ZMET study (by Olson Zaltman Associates), 2006.

¹⁵ Ibid.

¹⁶ Harley-Davidson internal research, March 2007.

¹⁷ Mike Hanlon, “100 bhp Buell Lightning Super TT XB12STT Debuts at EICMA,” *Gizmag*, November 15, 2006, <http://www.gizmag.com/go/6471>.

were lighter, faster, sportier, and cheaper than Harley-Davidson's heavyweight bikes, they were believed by many at the company to be more attractive to younger customers, who might enter the Harley-Davidson dealer universe via Buell, then later trade up to Harley-Davidson heavyweight bikes as they grew older.

Some observers were skeptical:

Motorcycle experts debate over whether Harley should stick to its mainstays—the big loud machines that make for smooth rides on long stretches—or bring out sporty, less pricey Harleys for the younger, hipper crowd. Harley has experimented with lower-priced sport bikes in its Buell line, but they're nowhere near as stylish and popular as Japanese and European rivals. Suzuki this year will sell some 67,500 sport bikes in the U.S.—including about 27,000 with engines in the same class as Buell's—but Harley will sell fewer than 5,600 Buells domestically, says industry analyst Don J. Brown of DJB Associates.¹⁸

Harley-Davidson bikes enjoyed a gross profit margin of around 35%—the highest in the industry anywhere in the world. Buell's bikes, by contrast, achieved only a 5% gross margin, although it was hoped a 10% margin could be achieved within the next year and strengthened beyond that as volumes grew. As a business Buell rarely showed a profit due to the investments it was making in brand awareness and product to catch up to its sport bike competitors. The Buell 1125R, a \$30 million investment in the most powerful and competitive sport bike Buell ever made (see **Exhibit 4**), had been introduced to the world just two weeks before Richer started his new job.

Taking Action

As the economic downturn of late 2007 and 2008 started to hit American automakers hard, Harley-Davidson saw sales and revenue plummet (see **Exhibit 5**).¹⁹ Even worse, unlike the automakers, Harley-Davidson was selling high-priced discretionary goods against competitors like Honda and Yamaha, who offered cheaper alternatives. Some at Harley-Davidson and its dealers, shaken by the emerging market weakness, thought any investment in Outreach came at the cost of preserving its Core customers, whom they assumed were generating most of the profits—a precious source of support in tough times.

Richer knew that time was his enemy; every passing year not only brought Baby Boomers closer to the time when riding their Harleys would no longer be physically enjoyable, but also brought him closer to the average 27-month tenure for CMOs. The company had uncovered many consumer insights that validated its challenges in appealing to younger customers, and he and his team had to come up with a plan to attract them and create loyalty while preserving the loyalty of the Core customers.

The good news was that he had two quality brands—Harley-Davidson and Buell—to leverage. However, multiple brands called for a brand management strategy. One option was the “house of brands” strategy popularized by Procter & Gamble, with its stable of standalone brands

¹⁸ “Harley Just Keeps On Cruisin’.”

¹⁹ Harley-Davidson 2008 Annual Report.

like Charmin, Old Spice, and Tide. The other was the “branded house” strategy, which used one central, powerful brand across product categories, as exemplified by Nike and its ubiquitous swoosh logo.

Richer needed time to think. He walked back to his Harley, opened up the throttle, and sped out of the parking lot to the “mantric throbbing” of a classic American machine.

Exhibit 1: Harley-Davidson Brand Strength

The Young and Rubicam BrandAsset™ Valuator “measures the value of a brand where it is created: in people’s hearts and minds.”

Harley-Davidson U.S. Brand Rankings
 Young Adults and All Adults in General Population

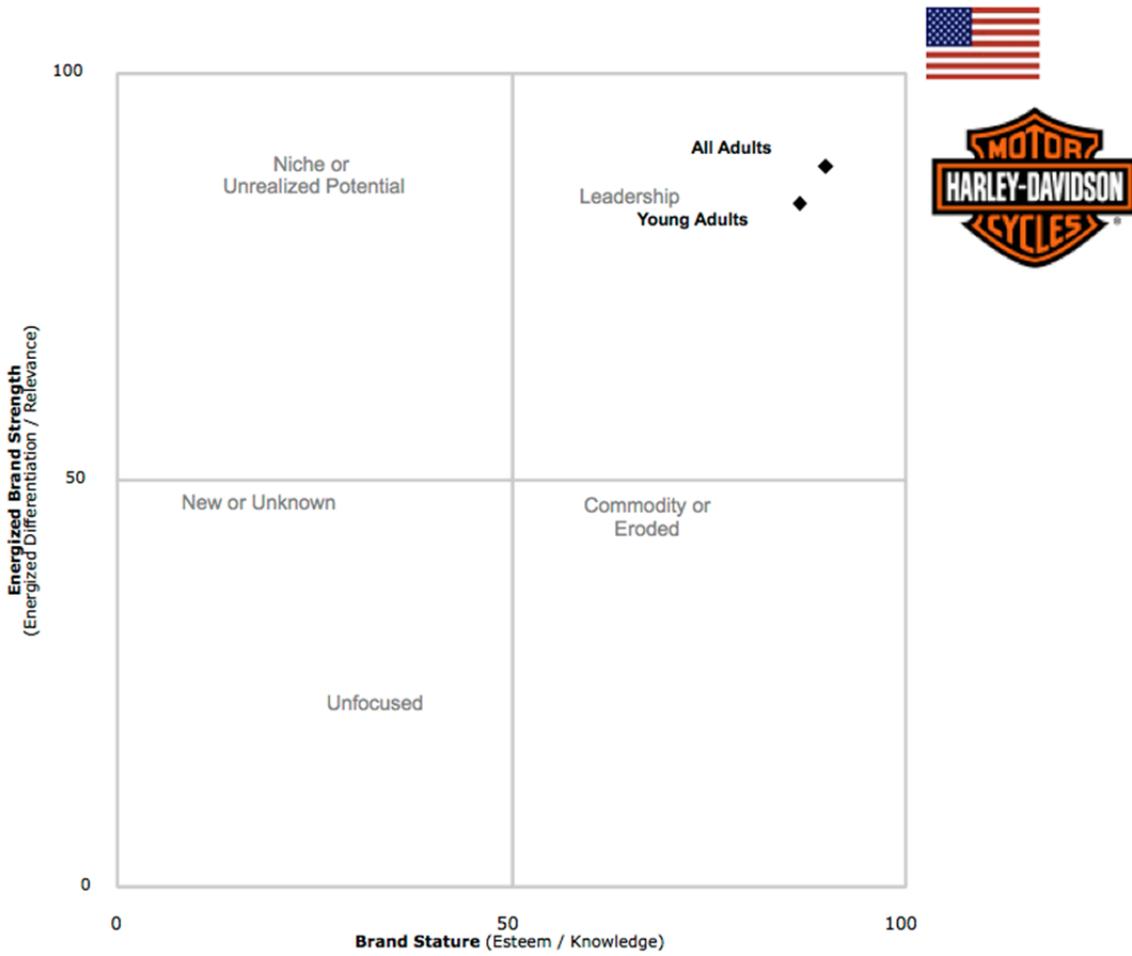
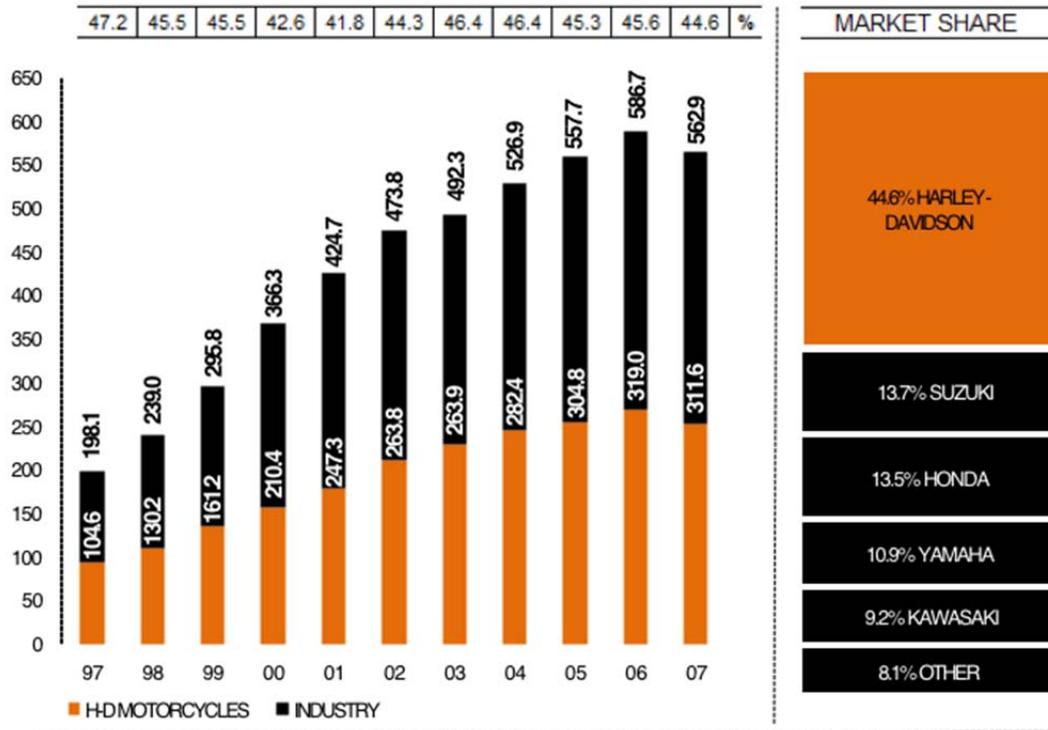


Exhibit 2: U.S. Market Share, Heavyweight Motorcycles

US

601+ CC Motorcycle Registrations H-D VS. INDUSTRY

Units in thousands



Source: MIC registration data.

Exhibit 3: The Iron 883



Exhibit 4: The Buell 1125R



Exhibit 5: Harley-Davidson Sales Volume and Revenue, 1985–2008

