

The Road Ahead for an Iconic Two Wheeler brand!

Author : Micah Maidenberg

Date : October 24, 2015



What's next for Harley-Davidson

Matt Levatich, CEO of Harley-Davidson, doesn't mince words about what the recession and its aftermath meant for the Milwaukee-based motorcycle maker. "The last six years have been brutally tough for our company," he said yesterday at a lunch downtown sponsored by the Executives' Club of Chicago.

While the **Harley brand** is recognized the world over and inspires intense customer loyalty—just ask riders who have **Harley-Davidson** tattoos—the bikes are discretionary purchases that can cost [upward of \\$40,000](#). But as the recession deepened, the company lost money in 2009, with its stock dropping to a bit over \$8 a share.

Harley has come back since the trough, in terms of net income and the value of its stock, which closed yesterday at \$53.60 a share, as consumers started spending again and it revamped factory operations. Still, the company faces a range of knotty challenges, including competitors that are [discounting prices](#) and a strong dollar that makes the American-made products more expensive outside the U.S.

Meanwhile, **Harley** is trying to expand what **Levatich** said is the **brand's** core consumer—white males age 35 and up. That means working with dealers to set up “garage parties,” for example, where women can check out bikes outside of the usual dealership environment, and reaching out to minorities and young people.

Levatich, 50, joined **Harley-Davidson** in 1994, holding a range of positions in the U.S. and Europe. In February, the company announced his [promotion](#) to **CEO**.

He spoke with Crain's after the Executives' Club event. (The interview has been lightly edited for clarity.)

You talked about responsive, flexible manufacturing during your speech. Can you elaborate on that? What does that mean day to day within the factories that Harley-Davidson runs?

The most important and maybe the biggest component of it is the shift from level production year round to a production pattern that is more in line with the seasonality of our business. That represented a huge challenge for every element of the production systems—the capital we use, the labor. Every one of our suppliers had to figure out how to supply a plant that has 30 percent more production in January than it does in November. The question is why do we do this, why do we go through this incredible effort?

The reason is because we want to be as close to consumer demand as we can be, and read the market and build what customers want, not have them buy what we built six months ago. We call it surge, the ability to surge our manufacturing in the spring when demand is highest and then bring it back down in the fall when it's lower. Surge allows us to read the market, build the motorcycles that are in demand and build them for markets where sales are happening, not for the markets where they're not.

What's the hardest part of retooling like this?

The hardest part is always that we have people working in the plants and people working in the supply base, and it requires a new level of thinking and working and flexibility on their part than what they're accustomed to. Change is difficult for people, for everybody—me, too—and we had to learn how to do new things for important reasons, and that's hard. The capital, the systems—those things are relatively more straightforward than the people side of it.

How do you make a U.S.-heavy manufacturing footprint work for Harley-Davidson, when presumably there are lower-cost locales where you could produce?

It isn't how we make it work; it's actually recognizing how important it is to our customers. And it isn't just Americans that want American-made **Harleys**. The world loves the American quality of a **Harley-Davidson**. So we have to balance this close-to-the-customer responsive, flexible manufacturing—it has to be balanced with the American qualities of **Harley** that everyone loves, and how do we find the right balance of building everything in the United States and then not being very responsive to somebody in Indonesia.

The other extreme is you have little plants all over the place so you can be responsive—it's expensive, complex. People will accept and understand that it's a global marketplace and some components are going to come from different parts of the world. People are pretty savvy now and they understand that, but the essence of the motorcycle being American is very important to every customer. So we have to find a balance.

What is the next phase of transformation within the company's manufacturing footprint?

Manufacturing is largely complete. We're working on more systems implementation to tie the whole network together better. We're operating in the future state and achieving levels of quality and safety that we've never achieved before as a company. All of the indications of the success are there. But like everything else, we have to keep getting better and better every day.

I would say the same thing is more or less the case with product development. We've made the

tough moves that we needed to do to shorten our time to market and get more, sort of, accurate with the products we choose to develop. But we have to continue to improve and dial in and keep our edge sharp in product development.

The bigger transformation for us going forward is the marketplace. How do our dealers reach out and embrace new types of customers? How does our **brand** motivate and compete better with people who are choosing what to do with their time and their money? Not necessarily other motorcycle **brands**, but sailing, RV-ing. And I'm talking about the world. So how do we bring all of these assets we have—the **brand**, the products, the distribution—into each marketplace and lead in that marketplace? That work will probably forever be in front of us as the major driver of our strategies and our efforts.

How does Harley reach younger audiences and more diverse audiences?

I think people have this impression of what a **Harley** is in their head, including the person riding it, who is probably a guy and probably overweight and probably has gray hair. So because people tend to have that image, they can't imagine this woman that just came up to me, she owns four **Harleys**. She's probably in her mid-40s. She said, "I don't have a tattoo, but I have four **Harleys**." You would never, in a lineup of people, guess she is a **Harley** owner.

There are all kinds of people like that. The issue is the spirit the person has, the identity that they have, and does that identity of freedom, strength, independence connect with the **Harley** identity. There are a lot of people out there where the spirit is connected but they don't have the physical connections. They don't know or maybe aren't quite ready or maybe they're intimidated about walking into a dealership and talking to some guy—probably a guy, probably a tough-looking guy—about a product and an experience they don't understand yet.

All of our work is about breaking down those barriers. The riding academy helps new riders, the garage parties I mentioned, the boot camps for young adults, the training work we're doing with the dealers and what we do with product. The street motorcycle, the FL low, which is easier and narrower for shorter people to ride or people without the leg strength. All these little things we're doing are actually having a significant impact on the increasing diversity of our customer base.

Based on what you hear from customers, from dealers, how do you guys read the health of the U.S. economy right now?

Every indication of the U.S. economy is strength, but with a slow return. Steady, strengthening, broad-based, but people got rattled in 2009. The recovery in the United States is good. It's steady, it's consistent, but it's slow.

//