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Turnaround of Harley Davidson – cult brand or strategic fit approach?

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Brand building has been studied from a marketing perspective for ages. Through this case study, we explain how Harley Davidson leveraged cult branding as a grand strategy and not a mere marketing strategy for its successful turnaround. Further, it is explained that it was fit amongst various human resources, operations, marketing, finance and distribution strategies with cult brand strategy, which made the turnaround of Harley Davidson successful. Our study hence throws light on the 'strategic fit' aspect between grand and functional strategies, an important criteria which is often overlooked, especially in turnaround management.

Keywords: cult brand; turnaround management; strategic fit; marketing and strategy

1. Introduction - overall strategy of Harley Davidson

Managers focus on making their products 'cult' from a branding perspective with special emphasis on consumer behavior. Even researchers and academics are analyzing cult brands more from marketing and consumer behavior perspectives with an emphasis on advertising and integrated marketing communication (Jung, 2008; Roy, 2010). However, for a brand to become truly a cult, many reinforcing activities apart from marketing and promotion are required across the entire value chain of an organization (Porter, 1985). Thus, the making of a cult brand has not only marketing and operations implications but also human resource management, capital structure management and foreign country entry-mode implications. For example, unless employees are treated as internal customers, they cannot build good relations with external customers. Similarly, risky strategies like premium positioning call for capital to be funded primarily by equity rather than debt, as this helps in lowering overall cost of capital. Porter (1985) introduced the concept of strategic fit and proposed the activity system maps model, which fosters a tight integration of such value chain activities. These maps explain how a good fit amongst value chain activities makes their imitation difficult for competitors and hence becomes a source of sustainable competitive advantage. This is especially true for turnaround management as the fit between activities and overall strategy becomes even more important when the firm is struggling for survival (Lillis & Macaulay, 2012).

Successful turnaround of Harley Davidson was leveraged not just through the creation of a cult brand, but rather through the configuration and integration of various value chain activities which reinforced the premium and niche positioning strategy of Harley Davidson. The cultural and historical ideologies built into the positioning of Harley

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Davidson bikes had implications not only for business strategy but also for corporate strategy, by impacting Harley's product and international diversification strategies. For example, Harley exported its bikes in international markets rather than setting up subsidiaries as the 'Made in the USA' label was a vital component of the cult strategy. Hence, the study throws light on how successful turnarounds are achieved through configuration of value activities, a concept suggested by Porter but often overlooked in cult brand building strategies.

2. Background

Two young entrepreneurs, namely William Harley and Arthur Davidson, established Harley Davidson in 1905 and incorporated the concern in 1907. Within two years, the company launched its v-twin engine that later became the H-D icon (Harley Davidson, website). Since the inception of the company, Harley Davidson bikes have been a huge success. During the first and second world wars, these bikes were used by the military.[1] Although Harley Davidson was able to manage competition from other US motorcycle manufacturers, when Japanese players entered the US market in the 1960s, the leadership position of Harley was threatened. In a friendly takeover, Harley Davidson was sold to American Machine and Foundry (AMF). However, AMF could not add much to the performance of Harley after this takeover and later in 1985, the company was bought out by Harley Davidson's management through a management buyout procedure. For the next few years, the management of Harley requested the US government to increase import tariffs for Japanese rivals, so that they could build up their market. The government agreed to the proposition and increased the tariff for several years, after which the tariffs were removed.[2] Harley Davidson was able to turn around successfully through many strategic initiatives with the most important lever for the turnaround being a strategic fit between value chain activities and overall strategy, which we will discuss shortly.

3. Heavyweight motorcycle industry segment in US industry and the position of Harley Davidson

The heavy motorcycle industry can be categorized into the three segments of cruiser motorcycles, touring bikes and performance models (Strauss, 1997). These models are explained as below:

Cruiser motorcycles: These are big, noisy and 'macho man' type machines with a V-twin engine and upright riding position. These motorcycles are positioned mainly as communicators of style.

Touring bikes: These bikes are designed for longer distances. They are also symbols of style, and have more luxury features like a heater and an audio system. In terms of technological advancement, the engine is shaft system based with multi-cylinders and an advanced suspension system.

Performance models: These are racing bikes with high speed and acceleration, which comprised 60% of the total market. However, Harley was a late entrant in this segment, doing so with the Buell motorcycle company, which it acquired in 1998.

Harley Davidson established its reputation and brand name through manufacturing and selling 'super heavy' motorcycles. Competition in the US motorcycle industry was based on many factors like price, durability, reliability, styling, quality, product features, customer preference and warranties. Harley Davidson's positioning was based on quality and styling, with special emphasis on style (Finkelstein, Charles, & Lawton, 2008). Below we discuss implications of positioning strategy on primary and secondary value chain activities and hence describe the successful turnaround of Harley Davidson using Porter's 'strategic fit' concept.

4. Reinforcement of value chain activities - implications for secondary functions

4.1 Role of strategic human resource management

According to the top management of Harley Davidson, the experience of riding Harley bikes can be described as follows:

> A chill sweeps through your body, created by a spontaneous outburst of pure, unadulterated joy. You are surrounded by people from all walks of life and every corner of the globe. They are complete strangers, but you know them like your own family. They were drawn to this place by the same passion – the same dream. And they came here on the same machine. This is one place you can truly be yourself. Because you don't just fit in. You belong.

The statement reflects and captures the passionate lifestyle, in which riders are able to find social affiliation with strangers who have one thing in common, their aspiration for adventure and style. And this similarity gives them a feeling of shared values and shared brand community. In other words, Harley wanted to sell lifestyle and not motorcycles to bike riders.

This required direct communication and interaction between employees and customers of Harley. The quality and nature of the interaction between employees and customers influences their perceptions about the firm's products and services (Bitner, Booms, & Tetreault, 1990). Thus, it was vital that before Harley employees could sell a lifestyle to customers, the company should be able to sell a lifestyle and not merely 'jobs' to its employees. This implies, if employees have to act as a catalyst and treat customers as a part of the Harley brand community, they themselves should feel treated as internal customers. The first action taken by Harley, in order to raise employee commitment was to treat everyone equally and remove as many barriers of authority and power as possible. Hence, the entire organization was restructured from a vertical, multiple layer structure to one that is horizontal and flat (Miles, Coleman, & Creed, 1995). This structure was not based on functional 'silos', but on work groups with titles such as 'natural work groups', 'process operating groups' and the 'plant leadership group'. The natural workgroup consisted of eight to 10 workers in a group. The 'process operating group' consisted of representatives of several different functions and the 'plant leadership group' comprised the plant manager and union presidents. In order to remove other communication barriers in work groups, walls between management and workers were literally removed. Doors and cabinets were replaced with glass offices to enhance the flow of information and team collaboration amongst peers in the workstation (Allen et al. 2008). Work group culture was not only followed in the plant, it was also implemented in the headquarters where the groups were designated as circles. There were three types of circle at Harley Davidson, the 'create demand' circle, the 'produce product' circle and the 'support' circle. At the center existed a strategy council overlapping with all the circles. Internal customers (i.e. employees in the 'create demand' circle) were made responsible for sales and marketing, the 'produce products' circle looked after production and engineering and the support circle took care of the legal, financial and human resource functions. The basic principle of these work groups and circles was to work in collaboration with each other and to ensure participation by all in decision making (Oosterwal, 2010). For example, if sales and marketing obtained an order to produce a certain number of motorcycles and the production group felt that to upgrade the quality of the machines, operations needed to be halted for a certain period of time, then marketing and production teams jointly worked on the problem and the solution

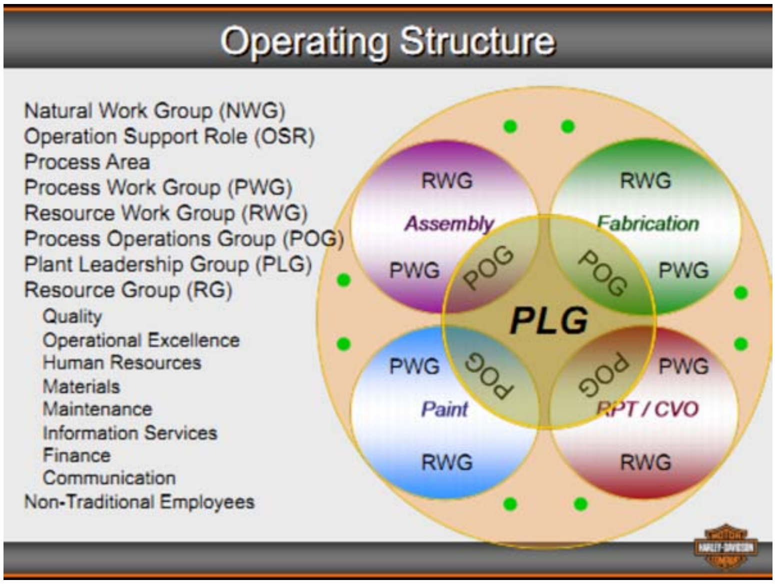

Figure 1. Organizational structure of Harley Davidson
Source: http://www.industryweek.com/videos/Fisher-Wilson-Hahn.pdf

(O'Leary-Kelly & Flores, 2002). Such participative management was not possible in the original hierarchical structure (see Figure 1). Furthermore, the positioning of a niche and cult brand thrives on the basis of customer loyalty (Duffy, 2005). In order to maximize external customer loyalty, it was important for Harley to ensure that internal customers, namely the employees, remained loyal to Harley Davidson. Amongst the friendly human resource policies implemented by Harley to ensure loyalty, the most important was the 'no layoff' policy. In the era of competition and the associated threats, where layoffs and downsizing are the first tactical actions that a firm takes to ensure efficiency, Harley, in order to reinforce its positioning of a cult brand with loyal customers, announced a 'no layoff policy'(Reichheld, 2001). Furthermore, employees actually rode bikes along with customers to explain to them the product features and enable them to have an exclusive and adventurous experience of bike riding. Thus, a friendly interaction between customers and employees helped to develop community building programs, and attract and retain customers.

4.2 Strategic financial management

The market timing theory in finance suggests that when the market value of a firm's equity is higher than its book value, the firm prefers to raise capital and funds via equity rather than debt. The reason is that the former approach lowers the overall cost of capital (Baker & Wurgler, 2002). It has been observed that the market valuation of firms which invest in risky strategies like innovation or niche segmenting is higher than that of firms which invest in conservative strategies, like those of low cost (Mazzucato & Massimilano, 2008). This implies that to lower the overall cost of capital, firms investing in risky strategies would opt for equity financing compared to debt financing.

Since Harley Davidson differentiated itself through operating in a niche and premium market, it necessarily invested in a risky strategy. The theory implies that, in order to gain overall financial and cost of capital efficiency, Harley should have opted for equity rather than debt, and this is indeed exactly how Harley operated its funding. Until 2007, the proportion of equity was higher than the debt, with a ratio ranging from 0.6 to 0.8. This reflected successful implementation of a cult brand-building strategy or in broader terms, a differentiation strategy. However, after 2007, the trend started to reverse for Harley Davidson, that is, the debt component exceeded equity with a ratio being of the order of 1.5 or more (see Table 1 for details). This could have occurred for two reasons; threat from major competitors has led to a decline in the performance of Harley Davidson, so that its market value deteriorated or, alternatively, because of the countervailing effect of expanding into international markets, there may have been a need for debt financing to cover exchange rate risks (Sattar & Reeb, 2002). The overall reduction in the cost of capital did boost the financial performance of Harley.

5. Implications for primary value chain activities

5.1 Role of operations and intentional demand–supply gap

A firm has to consider many performance factors if it wishes to position itself as a unique niche brand. In the case of an automotive industry, a firm which positions itself as a focused differentiator must deliver superior performance on various attributes of product such as features, reliability, durability, serviceability, conformance and perceived quality (Rose & Nabil, 2002). All the efforts involved in building a mystical image would have failed for Harley, if its bikes would have not delivered a premium performance for the above-mentioned attributes. Thus, to ensure the utmost bike quality, Harley adopted a ‘best practice approach’ to operations and quality management. For example, it benchmarked its operations against Honda (Beaulieu & Love, 2011). In the case of quality testing, Harley discovered that only 5% of Honda bikes failed the quality control (QC) test, whereas only 50% of Harley bikes could pass a QC test in one go (Hartley, 2010). Apart from this problem, productivity per employee was also almost three times higher for Honda compared to Harley. To overcome these shortcomings, Harley implemented a triad productivity solution with a focus on three key areas: employee empowerment; Just in Time (JIT) techniques; and statistical operator control (Cowton & Vail, 1994).

Apart from the best practices for productivity and quality purposes, Harley Davidson intentionally maintained a gap between demand and supply. Loyal customers were made to wait up to a year before receiving their chosen bikes (Montgomery & Stutevile, 2004).

Table 1. Comparison of debt vs. equity from Harley Davidson’s annual accounts, 1999-2009.

Year	Total debt	Total equity
2009	5,636,139	2,108,118
2008	3,914,887	2,115,603
2007	2,099,955	2,375,491
2006	1,702,491	2,756,737
2005	1,204,973	3,083,605
2004	994,305	2,957,652
2003	762,579	22,32,915
2002	597,051	1,756,283
2001	444,509	1,405,655
1999	461,163	1,161,080

According to Harley, the wait enhanced interest and pride amongst customers with respect to a Harley Davidson bike. Apart from this Harley also offered customized bikes so that customers could get bikes built exactly as they wanted them. Overall, the focus on quality and an intentional supply delay helped Harley in successfully positioning its bike in the minds of customers, thus enhancing sales and ultimately gaining customers' brand loyalty.

5.2 Strategic brand positioning and its impact

According to one of the senior marketing executives at Harley Davidson, 'A brand becomes a cult when it is an integral part of the social and cultural milieu of the society' (Economic Times, 2012). By virtue of its product design and other affiliated attributes like its trademark V-twin engine, teardrop gas tank engine and extra large speedometer, Harley targeted those customers who aspired to have a more 'macho man' image. The engine, design and mechanics of Harley's bike made it possible for Harley to position itself as cult brand which sold the 'American Dream' and lifestyle (Rafferty, 2002). One of the crucial acts of the company was to create the Harley Ownership Group (HOG). The prime objective of this group was to enhance relationships between customers, dealers and employees (Business Week, 2005). For example, in the rallies sponsored by Harley Davidson, employees and customers rode the bikes together which gave them a feeling of belonging to the community. The success of a cult brand is reflected in the brand loyalty created by the firm for its product (Knox & Walker, 2001). Creating passion to the extent that people get the company logo tattooed on their body is rare, something which customers of Harley really did and still do. Although Harley bikes were meant for the younger generation, the impact of the successful cult branding and hence brand loyalty toward Harley Davidson was reflected in an increasing median age of the customers. The median age of customers has increased from 34 to 46, that is, an increase of more than 10 years (see Table 2). Also, out of the total sales of Harley Davidson, approximately 45% were from repeat sales, indicating that its customers were high on brand loyalty and the increase in median age was partly because of repeat purchases by the same customers.

Some additional benefits provided to the potential customers included: insurance, emergency roadside service, membership in riding groups, subscriptions to motorcycle

Table 2. Median age of Harley Davidson customers, 1992–2005.

Year	Median age
1992	34.7
1993	34.6
1994	36.7
1995	38.5
1996	38.4
1998	41.6
1999	43.6
2000	44.6
2001	44.4
2002	45.6
2003	46.0
2004	46.7
2005	46.9

Source: Harley Davidson, 10K.

magazines and so on. Furthermore, Harley did not completely rely on banks and financial institutions for financing. Rather, it ventured into financial services itself to provide credit, insurance and extended warranties to customers. This financial services division of Harley Davidson blossomed rapidly and accounted for approximately 20% of revenues of Harley Davidson by 2009 (Annual Reports, various years, Harley Davidson).

5.3 Strategic distribution system management

Dealers are a major point of contact between customers and the respective firms. The way dealers are managed thus has an impact on customer perceptions of luxury brands sold by these dealers. For example, if there are too many dealers selling the same brand, the feeling of exclusiveness vanishes (Vigneron & Lester, 2004). Harley Davidson's dealers dealt with customers whose disposable income was within a range of $17,000 and who bought bikes for leisure and adventurous rides (Gray, 2009). Since premium and exclusive service had to be provided to Harley customers, the dealers they appointed marketed and distributed exclusively Harley bikes. Around 81% of showrooms for Harley were exclusive to their products (Harley Davidson website). Thus, dealers were not allowed to display or sell bikes of other competitors in the market. Furthermore, to enhance the exclusivity and the premium image of the bikes, dealers were even trained in managing customer relationships. For this purpose, a special 'university program' was launched by Harley. Training programs included not only customer management, but also inventory management and service proficiency. Overall, efforts made on the part of distribution management reinforced the overall 'unique and the exclusive image' strategy of the firm. The impact of this niche segment strategy was very well reflected in the sound financial performance of Harley Davidson, with operating income increasing by almost 30% during the period of 1999–2007. (Annual Reports, various years).

6. Corporate strategy – product and international diversification

6.1 Product diversification strategy – the implications of Harley Davidson business ideology

Diversification is defined in the strategy literature in broadly two ways. The SIC or the industrial code approach suggests that the more similar the SIC codes of industries to which a firm belongs, the narrower its diversification (Fan & Lang, 2000). The resource based view suggests that related diversification emerges if a firm has strategic or operational relatedness in its business (Grant, 2006). Strategic relatedness evolves from common managerial capabilities across business units and operational relatedness lies in synergies obtained by virtue of the sharing of the firm's resources (Nayyar, 1992).

The ideology of Harley Davidson, to sell a macho man type lifestyle to customers implies that it has to be present in businesses which sell lifestyle symbols. Items like jackets, lighters and cigars enhance the macho man image (Hatch & Rubin, 2007). This implies that Harley has to be present in these businesses, even if they look unrelated to the hi-tech automobile industry by virtue of the SIC code approach.

Thus, Harley Davidson diversified into different goods categories like jackets, caps, colognes and so on to give a complete macho man look to their riders. Interestingly, as an emergent strategy, jackets and caps became famous amongst non-riders as well. However, since Harley did not have a core competence (Prahalad & Hamel, 1994) in the manufacturing of jackets or colognes, much of the manufacturing of all these accessories was outsourced to third parties. Furthermore, cafés in the name of Harley Davidson were

Table 3. Comparison of US vs. overseas sales 1996-2005.

Year	US and Canada	Europe	Japan
2005	48.9	9	26.8
2004	48.8	9.1	27.5
2003	47	7.7	22.5
2002	44.5	7.8	21.4
2001	45.9	7.5	20.4
2000	49	6.5	19.6
1999	48.5	6.4	15.6
1998	49.3	6.4	17.2
1997	48.6	6.7	22.4
1996	48.2	6.2	20.2

Source: Harley Davidson, 10K report.

opened in Manhattan and Las Vegas. Harley Davidson's sales of merchandize (i.e. clothing and accessories) accounted for about 20% of Harley Davidson revenues by early 2000, thus emphasizing its success in strategically related business, which also in turn boosted sales of its core business, that is, Harley Davidson bikes.

6.2 International diversification – exports as a mode of entry for risk aggressive firms?

Internationalization theory suggests that a firm that tends to be conservative and risk-averse thus enters the foreign market first via exports and after it has tested the market, only then does it establish wholly owned subsidiaries with its own manufacturing plants (Johanson & Vahlne 1990). This trend has been observed especially for Swedish companies entering Nordic markets. Other theories suggest that it is the combined effect or risk and control over operations, which jointly determines a firm's entry mode strategy in international markets. For example, firms which require more control over operations prefer to opt for joint venture or acquisition, compared to exports or licensing (Chen & Hennart, 2002). Since the inception of the company, Harley never opted for joint ventures or acquisitions or green field entry into the international market, be it a neighboring similar country like Canada or the UK or an emerging country in Asia like China or India. The reason for this was neither risk conservativeness nor control over operations. Harley was a cult brand reflecting the ethos and culture of the USA in the design and manufacture of its bikes (Pisinki, 2005). Shifting or expanding the manufacturing base to other countries would have led to the deterioration of its American icon image and it would have lost its position as a firm which 'sells America's dream' overseas (Business Week, 2012). In other words, the label of 'Made in the USA' was vital for Harley to reflect its American icon position, as a result of which it could not establish manufacturing plants overseas. Although in some markets, due to cultural differences, Harley faced problems in bike customization, whatever international sales Harley achieved was because of its cult brand image (Burgh-Woodman & Brace-Govan, 2007). This image was enhanced through centralized manufacturing and selling the American dream concept overseas. See Table 3 for details.

7. Conclusion

It is evident that the successful turnaround of Harley Davidson was not embedded merely in a cult brand building marketing strategy but rather in the strategic fit between all the activities and grand strategy of focused differentiation through cult branding. Thus, it is important for managers to tightly integrate various value chain activities, as considering only marketing or operations important, and neglecting others, can have serious negative performance implications in the long run. The fit amongst activities will also make their imitation difficult for competitors and hence, sustainable competitive advantage can be achieved.

Successful turnaround of a firm has been attributed to factors like restructuring and repositioning (Braun & Latham, 2012). Some scholars have even given step by step guidelines to implement successful turnaround (Johnson et al., 2008). But turnarounds are rarely viewed from the lens of 'strategic fit' maps of activities, though the concept was given back in the 1980s. By explaining the successful turnaround of Harley Davidson, light is reflected on this theory.

A recent decline in the sales performance of Harley Davidson, as well as poor performance in international markets, raises concerns about various aspects of brand and strategy management by Harley Davidson. Yet at the same time, a remarkable turnaround of the company with its focus on strategic fit cannot be ignored. Thus, strategic fit is even more crucial during a turnaround which clearly enhanced the position of Harley Davidson considerably.

Notes

1. http://www.harleysons.de/worldwar.htm
2. http://www.cato.org/pubs/pas/pa032.html

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