



HARLEY-DAVIDSON MOTOR COMPANY

Dave Storm, Vice President of Strategy for Harley-Davidson Motor Company, reflected on the struggles and successes that Harley-Davidson had faced over its turbulent history. Harley-Davidson had come a long way and overcome many obstacles since its inception, but times had changed and so had the challenges. The determination and will to succeed within the organization was, however, stronger than ever. Harley-Davidson had felt a sense of pride at the success of their latest expansion to 100,000 motorcycles per year. The plans had been successfully executed well ahead of schedule. Ten years ago, no one within the organization would have imagined that so many people would want to buy Harley-Davidson motorcycles. Never in their wildest dreams would they have thought that they would be capable of producing so many. They had, however, underestimated the demand for their product and the heavyweight motorcycle market as a whole. With demand growing rapidly, Harley-Davidson's constrained production capacity was insufficient to meet all demand. Excess demand, estimated to be more than 10% above capacity, resulted in waiting lists of up to 2 years depending on the model. Harley-Davidson was practically inviting potential customers to buy from their competitors!

Dave had asked Jim McCaslin, Vice President of Harley-Davidson's York Assembly facility, to join him and the rest of the management team at the Head Office in Milwaukee to finalize Harley-Davidson's future plans to respond to the latest surge in demand. On June 3, 1996, they would present their recommendations to the Board of Directors on the best way to deal with their constrained production capacity in a rapidly growing market. The management team had devised several alternative strategies to counter their gradually sliding market share and to continue the phenomenal growth that the company had been enjoying recently. The problem that they faced was in choosing the best strategy, and time was rapidly running out.

History (1903-1992)

Harley-Davidson Motor Company, the only remaining major American manufacturer of motorcycles, has had a long and exciting history. William Harley and the

Davidson brothers (Walter, Arthur and William) built the first Harley-Davidson motorcycle in 1903 in a shed in Milwaukee, Wisconsin. By 1909, Harley-Davidson introduced a more powerful motorcycle, incorporating a new engine that is the company's standard to this day: the V-Twin (named after the 55° angle at which the two cylinders are juxtaposed). Doubling the power of its predecessors, it carried riders at a then unbelievable 60 miles per hour. The motorcycle craze had caught on, and by 1911 there were over 150 other brands of motorcycles competing for space on America's roads. Soon thereafter, a new use for motorcycles appeared. Already popular for police use, Harley-Davidson motorcycles were used to support the infantry in World War I. Over 20,000 Harley-Davidson motorcycles had been called into action by the end of the war.

Although there was initially strong demand for these bikes, the preeminent introduction of the Model T automobile and the subsequent effects of the Great Depression devastated the motorcycle market. By 1931 only three US manufacturers survived: Harley-Davidson, Excelsior-Henderson and Indian. Even though annual company sales dropped sharply to 3,700 motorcycles, Harley-Davidson survived thanks mostly to a strong dealer network, police and military use, conservative business management and strong exports.

In 1941, the US and Allied forces once again rallied Harley-Davidson for its help. Harley-Davidson supplied all of its production—more than 90,000 units during World War II. This was the beginning of a new trend. Immediately after WWII, people were eager to get back to motorcycling. An increase in discretionary income coupled with an improved road system throughout the US fueled explosive demand for motorcycles. To help meet the booming motorcycle demand, Harley-Davidson converted an airplane propeller plant on Capitol Drive in the Milwaukee suburb of Wauwatosa into additional manufacturing facilities in 1947. Harley-Davidson's success was further highlighted by the fact that Indian, its oldest and closest competitor, went out of business. Much of the reason for their demise was their inability to deal with the volatility of the market demand.

Kellogg MMs Troy Anderson, Mark Bruno and Shaun Usmar and Associate Professor Jan A. Van Mieghem prepared this case as the basis for class discussion rather than to illustrate either the effective or ineffective handling of a managerial situation. The cooperation of Harley-Davidson management is gratefully acknowledged.

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