Harley Davidson Case Analysis Essay, Research Paper

INTRODUCTION

History

In 1903, William Harley-Davidson, Arthur Davidson, Williams Davidson, and Walter Davidson started Harley-Davidson in a 10×15 shed in their backyard in Milwaukee, Wisconsin. Production started with three motorcycles in 1903 and increased to 8 in 1908. In 1969, AMF Incorporated acquired Harley-Davidson Motor Company and expanded capacity from 15,000 to 40,000 motorcycles. Harley-Davidson, Incorporated was formed in 1981, when it was purchased from AMF Incorporated in a management buyout. In 1986, Harley-Davidson, Incorporated became a publicly held company. The new management installed a just-in-time inventory system to reduce inventories and improve total quality. With a new quality focus Harley-Davidson began to invest heavily in research and development. In one year the new Harley-Davidson management reduced the break-even point by 18,000 motorcycles. Management’s focus on efficiency in production and improvements in quality resulted in increased demand and a production capacity of 100,000 motorcycles in 1995. Harley-Davidson operates in two segments Motorcycles and Related Products, and Transportation and vehicles segment. Total net sales for the first nine months of 95 were $1.3 billion, an increase of $174.1 million from the first nine months of 1994. Net sales increased in both the Motorcycles segment and the Transportation Vehicles segment. Demand for motorcycles is continuing to increase at a rate faster than supply for most of the markets in which Harley-Davidson competes. Parts and Accessories market should grow at a rate similar to the annual growth in motorcycle market. From its beginning in a shed at turn of the century, Harley-Davidson has survived the Great Depression, two world wars and a manufacturing revolution to become a company with products so valued and sought after that they are a way of life for many owners (Wheelen).

Organization s Vision, Mission, and Objectives

The Harley-Davidson’s vision is as follows: “Harley-Davidson, Incorporated, is an action-oriented, international company-a leader in its commitment to continuously improve the quality of profitable relationships with stakeholders (customers, dealers, employees, suppliers, shareholders, government, and society). 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-Davidson’s mission statement is as follows; “We fulfill dreams through the experience of motorcycling, by providing to motorcyclists and to the general public an expanding line of motorcycles and branded products and services in selected market segments”(Harley-Davidson Home Page). The mission statement shows that the focus of the organization is on customer satisfaction and growth. Harley-Davidson’s statement of company philosophy contains a separate list of the values of the organization. The values listed in this statement are, “Tell the Truth, Be Fair, Keep your Promises, Respect the Individual, Encourage Intellectual Curiosity”(Values).

The objectives of the both the Motorcycle and Transportation Segments are listed below:

+ Double production capacity to 200,000 motorcycles annually by 2003.

+ Increase the number of women who purchase motorcycle-riding apparel.

+ Gain entry in to the performance motorcycle industry and increase the sales of the newly acquired Buell Motorcycle Company.

+ Increase international market share by increasing the number of foreign dealers and improving the foreign channels of distribution.

+ Increase the availability of credit and lower the cost of credit for both the retail customer and the Harley Davidson Dealer.

+ Improve customer satisfaction and improve communication with European stakeholders by increasing dealer service competencies.

The Chief Executive Officer

CEO Value Profile

Mr. Richard Teerlink age 59 joined Harley-Davidson in 1981 and was elected to the board of directors in 1982. In 1988 he was appointed President, and he was named Chief Executive Officer in 1989 (Wheelen). Mr. Teerlink is also on the Boards of Directors of Johnson Controls, Incorporated and Snap-On Incorporated (Rethinking Leadership). Mr. Teerlink has been the leader in developing a value-based culture at Harley. His focus is on the importance of establishing mutually beneficial relationships with all of stakeholders has served the company well in the past. Teeklink believes that top management is responsible for creating an operating environment that can allow continual learning (Harley Davidson Home Page). Unlike the traditional executive leader who is focused on structure and strategy, Teerlink thinks about the operating environment in less tangible ways. Teeklink has a quality focus and has initiated a just in time inventory system along with a value-added approach to manufacturing (Wheelen).

In addition to the focus on a quality product, Teeklink is also focused on growth and corporate governance, which is reflected in the company s vision. In a speech at Yale University Teerlink said that, “the Motor Company expects its market share to be bolstered by increased production in the next few years. Teerlink stated the company expects to produce 200,000 units annually by the year 2003, compared to about 100,000 in 1995. Teerlink added in his speech, “We have not found any reduction in the demand for Harley-Davidson,”. He said the Milwaukee firm had close to 50 percent of the 651cc-and-above U.S. motorcycle market. Teerlink also said that almost 30 percent of the company’s motorcycles are traditionally sold outside the United States. “Harley-Davidson seeks a patient and careful approach to overseas expansion. It’s our intention to be very successful in all markets,” Teerlink added. “We are taking time to develop markets, rather than just going in and putting a dealer on every corner and have them sell motorcycles. Because we’re capacity-constrained, we’ve been losing some market share, but we’re not losing market share because people don’t want to buy our product.” According to Teerlink, Harley-Davidson now has distributors in Peru, Singapore, Indonesia, South Africa and other emerging markets. He said Harley-Davidson had no immediate plans to diversify beyond its traditional strength in large-displacement motorcycles. Teerlink also noted that women now make up about eight percent of new Harley-Davidson buyers, as opposed to only two percent in the past (Online Magazine).

Philosophical Values of Richard F. Teerlink

Values Conservative Middle of the Road Liberal

Aesthetic \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_x\_\_\_\_

Socio-cultural \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_x\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Technological \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_x\_\_\_\_\_\_\_\_\_\_\_\_

Religious \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_x\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Political \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_x\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Legal \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_x\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Economic \_\_\_x\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Ethical \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_x\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

This set of values would suggest a CEO who is very much concerned with the physical appearance of high quality products. Current technology would be important to him, because of his need for efficiency and quality. This CEO is concerned with treating dealers, suppliers, and employees with integrity. In addition, he has a middle of the road philosophy regarding government, religion, and the legal system. Capital expenditures will be approximately $110 million. The funding for these expenditures will be with internally generated funds. Financing with internally generated funds is indicative of the conservative economic values of Mr. Teerlink. He would value profitability, but would emphasize customer satisfaction and the quality of the product.

Internal Environment General Discussion (by function)

Structure scott

Culture

Harley Davidson s culture fulfills the important functions that are necessary for an organization to survive. The company lives by their worldwide mission, which states: Preserve and perpetuate the Harley-Davidson institution through continuous improvement in the quality of their products and services and achievement of their financial goals. Provide the general public brand identified products/services to enhance Harley-Davidson s image and attract new customers. Engage in manufacturing or service ventures that can add value (not only profit) to the motorcycle business.

In order to fulfill their mission, Harley is constantly searching for ways to do things better. They focus on the importance of relationships between management and other employees. By doing so, employees convey a sense of identity, that in turn, helps them generate commitment to the company. Education programs that take place at Harley-Davidson s learning center help employees to become compatible with the company s culture. The idea of never being satisfied with the company status leads to continuous improvement and keeps the company consistent with its current objectives, strategies, policies and programs.

Marketing

Brand loyalty for Harley-Davidson is emotional for management and the customers. Harley promotes a mystique appearance, individualism, the feeling of riding free, and the pride of owning a legend. With Harley, you can live out your fantasies, as well as experience camaraderie with fellow bikers (the thing from Scott). Harley-Davidson has been trying to increase brand recognition among the non-riding public and provide a wide range of products by licensing its trademark “Harley-Davidson-Registered Trademark”(Wheelen). Harley-Davidson currently has licensed the production and sale of a broad range of items, including clothing, jewelry, small leather goods and numerous other products, and is expanding its licensing activity in the toy category. Licensing has also been an effective means of enhancing Harley-Davidson’s image.

Harley-Davidson s motorcycles are sold through a network of 1,065 dealers worldwide. Harley-Davidson’s basic channel of domestic distribution consists of approximately 600 independently owned full-service dealerships. Approximately 75% of the dealerships sell Harley-Davidson motorcycles exclusively. All dealerships carry Harley-Davidson replacement parts, after market accessories, and perform servicing of Harley-Davidson motorcycle products. Marketing efforts are divided among dealer promotions, customer events, magazine, public relations, and cooperative programs with Harley-Davidson dealers (Financial Web). They own 54 percent of the market share in the USA, 16 percent in Japan, 10 percent in Europe, and 38 percent in Australia. The foreign markets could be larger, but the company has an agreement with American dealers not to sell more than 30 percent of the bikes overseas, if the domestic demand is not met. The dealers are considered to be business partners and the headquarters plays an active role in developing programs, financing improvements, implementing support and management consultants. Harley has developed a very effective marketing strategy, but it is the responsibility of manufacturing to produce high quality and reliable motorcycles.

When a person buys a Harley-Davidson motorcycle, they receive a free 1-year membership to the Harley Owners Group (HOG), which was developed in 1983 as a program to keep people active with their Harley. HOG also keeps the company close to its customers. HOG has 295,000 worldwide members, 900 local chapters and is the largest company-sponsored motorcycle enthusiast group. They conduct four US national rallies, two touring rallies and 44 state rallies. These rallies are the primary promotional tool for Harley-Davidson by improving customer relations and are an excellent way to showcase and demonstrate new products.

Harley-Davidson is not able to compete with the foreign competitors in the area of price. Harley-Davidson has developed a strategy of value over price. Harley-Davidson was careful not to exceed demand in production of their motorcycles. Sometimes, people must wait six to eighteen months for a new motorcycle. By not being able to meet demand, a must-have attitude has developed by many of the customers, and in fact the price for a year-old Harley is 25% to 30% higher than a new one.

Harley-Davidson uses the Internet and their website to provide complete information on the company, the products, and on regional and national events. During 1996, 1995, and 1994, Harley-Davidson had domestic marketing, selling, and advertising expenses of approximately $75.4 million, $71.5 million, and $65.6 million, respectively (Harley-Davidson Home Page).

Finance

Harley has provided consistent financial performance for the last 10 years, with revenue and earnings both showing double-digit growth. This growth can be expected to continue as long as the responsible strategies are continued.

Harley has also provided long-term shareholder return. Since going public, Harley-Davidson stock has outperformed the S&P 500. This has resulted in a compounded annual return of about 40%.

Keeping debt down, and producing substantial cash flow from continuing operations have established a solid financial position. Standard and Poor s and Duff and Phelps Credit Rating Company have both extended A credit ratings to Harley due to their current financial position. [1997 Annual Report, pg. 37]

Capital expenditures have increased in all but one year since Harley-Davidson went public. A substantial portion of the capital expenditures was for improvements in the manufacturing facilities to increase capacity in order to narrow the gap between supply and demand. Harley has also been spending to expand into new markets, and attract new customers. All of Harley-Davidson’s Capital expenditures are from internally generated funds and all future investments will also be internally funded.

Parts & accessories revenue has been increasing along with the sales of motorcycle, but general merchandise revenue has flattened out over the past 5 years. New branding contracts are expected to increase general merchandise revenue.

The following table contains the key ratios for Harley-Davidson and a comparison to those ratios of the industry.

1995

Industry Harley-Davidson

Ratios Motorcycles Motorcycles

Solvency

Quick 0.7 1.08

Current 1.8 1.45

Curr Liab to equity 61.3 47.00

Curr Liab to Inv 124.7 2.76

Total Liab to Equity 73.4 33.23

Fixed Assets to Equity 60.7 58.00

Efficiency

Collection Period 41.8 37.00

Sales to Inv 9.5 16.00

Assets to sales 48.7 25.00

Sales to Common Equity 9.3 2.73

A/P to Sales 6.9 7.50

Profitability

Return on Sales 5.2 8.300

Return on Assets 11.7 12.77

Return on Equity 24.1 23.94

Overall Harley-Davidson has a relatively strong financial position and has the definite ability to generate positive cash flows. Based on the analysis of they key ratios Harley-Davidson is more liquid and profitable then the industry. On the next seven pages are graphs and discussion of various ratios over a three year trend for Harley-Davidson and the motorcycle industry.

The profit margin ratio measures the efficiency of the operation and how well an organization is able to maximize profit in terms of its sales. Harley-Davidson has a relatively consistent profit margin. Harley-Davidson is in a favorable position to withstand falling prices or increased costs. In comparison to the industry Harley-Davidson has been able to maintain a favorable profit margin especially in 1996 where the industry as a whole when done significantly.

This ratio is the key indicator of profitability for a firm. It matches operating profits with the assets available to earn a return. Companies efficiently using their assets will have a relatively high return while less well-run businesses will be relatively low. Once again Harley-Davidson was able to keep a fairly consistent ROA, while there was a significant downturn in the ROA for the industry from 1995 to 1996. Harley-Davidson’s ROA has stayed at a constant 11%.

The current ratio measures the degree to which current assets cover the current liabilities. The higher the ratio the more assurance exists that the retirement of current liabilities can be made. The current ratio measures the margin of safety available to cover any possible shrinkage in the value of current assets. The current ratio can be a difficult ratio to interpret for various reasons. The current ratio is one of the best measures of liquidity. Historically Harley-Davidson has had a current ratio lower than the industry, but in 1996 their current ratio has risen, while the industry has fallen. One of the possible reasons for the increase in the ratio is the fact that Harley Davidson has been trying to enter foreign markets and have had to extend collection periods, which has increased accounts receivable collection periods. With increased collection periods accounts receivable will rise and increase the current ratio.

Current liabilities are all the liabilities that fall due within one year. This ratio reveals the protection afforded short-term creditors in cash or near-cash assets. It shows the number of dollars of liquid assets, which are all current assets excluding inventory, available to cover each dollar of current debt. Any time this ratio is 1 or greater the business is said to be in a liquid position. The larger the ratio the greater the liquidity. A ratio above one assures lenders that Harley-Davidson is in a good position to pay its short-term obligations. Just as with the current ratio the increase in the quick ratio is do to the fact that Harley Davidson has been trying to enter foreign markets and have had to extend collection periods, which has increased accounts receivable collection periods. With increased collection periods accounts receivable will rise and increase the quick ratio.

The accounts payable to sales ratio measures how the company is paying it suppliers in relation to the volume being transacted. An increasing percentage, or one larger than the industry norm, indicates the firm may be using suppliers to help finance operations. The ratio is especially important to short-term creditors since a high percentage could indicate potential problems in paying vendors. Harley-Davidson uses internally generated funds provided by operation rather than financing through debt. Without debt financing the accounts payable ratio should be higher than the industry average, because other companies that use debt financing will pay their suppliers using debt funds. The other companies in the industry also have lower liquidity rations which is also an indication of debt financing.

The quality of the receivables of a company can be determined by this relationship when compared with selling terms and industry norms. In some industries where credit sales are not the normal way of doing business, the percentage of cash sales should be taken into consideration. Generally, where most sales are for credit, any collection selling terms is indicative of some slow-turning receivables. When comparing the collection period of one concern with that of another, allowances should be made for possible variations in selling terms. Harley Davidson’s collection period in 1996 went from a little over 30 to almost 40 days per month. Ordinarily an increase of 10 days in collection period would cause concern. Harley-Davidson is in an expansion period both domestic and international. They have relaxed their credit policy, most likely, to increase market penetration. Once the collection period has stabilized, management can determine if the credit policy can remain. Harley has adequate cash flows to support such a market penetration policy.

Inventory control is a prime management objective since poor controls allow inventory to become costly to store, because they could be obsolete or insufficient to meet demands. This relationship is a guide to how fast the merchandise is being moved and the effect on the flow of funds into the business. The company’s figures are only meaningful when compared to the industry norm. Individual figures that are outside the industry norms should be examined carefully. Although low figures are usually the biggest problem, as they indicate excessively high inventories, extremely high turnovers might reflect insufficient merchandise to meet customer demand and result in lost sales. Harley-Davidson has a higher sales to inventory ratio for two major reason first of which is their inability to meet the demand for their motorcycles, and the second is the fact that Harley can charge a premium price for their motorcycles. In addition to the factors that make Harley-Davidson’s ratio higher, the rest of the industry has to charge lower prices to try to gain market share.

Research and Development

Motorcycle manufactures must utilize technology in developing their product as well as in the process of manufacturing them. More powerful motors and lighter, stronger structural components led to an increase in performance, while new brake and suspension systems help to make riding safer. Technology also plays an important part in the manufacture and distribution of motorcycles. Computer programs allow designs to be tested in a virtual environment without having to pay for expensive prototypes. Computers are also used in manufacturing, distribution and delivery systems. Motorcycle manufactures must use all available technology resources to be successful.

Technology has been put to use throughout Harley-Davidson in order to design and produce the finest motorcycle possible. In 1997, the Willie G. Davidson Product Development Center (PDC) was opened to provide research and development facilities for product development. Employees from various functional units within the organization meet regularly with material suppliers to come up with new designs and processes. The PDC has been responsible for the successful launch of many new product innovations. The research and development teams are constantly working to find ways to make new motors with more power and durability. Harley-Davidson has several upgrade performance packages that were designed, tested, and perfected at PDC.

Harley-Davidson technology is also being incorporated into Buell motorcycles. These motorcycles combine cutting-edge performance with the sport motorcycle design that has become so popular with the young riders throughout the world.

Operations and Logistics

Motorcycle Segment

Since Harley-Davidson s dramatic turnaround in 1985, the company has been continuously committed to achieving low cost efficiencies without sacrificing quality, and maintaining close relations with suppliers, customers, and distributors. Further evidence of this commitment exists in Harley s formal written operating policy, which is as follows:

1. Foster a retail customer satisfaction culture throughout the organization.

2. Enhance two-way customer communications.

3. Offer choices of higher quality, lower complexity products.

4. Improve control and support of distribution channels by strengthening

partnerships with dealers.

Demand for Harley-Davidson motorcycles has been so great, that the company is unable to keep up with customer orders through its existing manufacturing facilities. Because of this, the company recently adopted a comprehensive motorcycle manufacturing strategy, that is designed for, among other things, to increase their production rate to 100,000-units-per-year by 1996. This strategy called was designed to reach the new production rate goal without expanding existing manufacturing facilities. Harley implemented a number of key operating strategies in order to meet this new production goal and further their commitment to satisfying customers through quality products.

Harley-Davidson realized that in order to increase production efficiencies, improve quality, and meet their production goal, their workforce needed some additional training. A tremendous amount of time, effort, and resources were expended to train the manufacturing workforces in analytical problem solving techniques, and statistical quality control methods in order to enhance the quality of their motorcycles and increase efficiencies.

Furthermore, the company adopted just-in-time inventory principles to minimize inventories of raw materials and work in process. By forming close partnership like alliances with a few quality conscious suppliers, Harley has been able to successfully implement the just-in-time inventory system. Harley frequently holds in-house training sessions, and plant evaluations with its key suppliers to ensure that suppliers share the same commitment to quality and production efficiencies. Overall, the new system has allowed Harley to react quicker to engineering design changes, quality improvements, and marketing demands within its existing manufacturing facilities. Although the close relationships with suppliers, and reliance with only a few key suppliers has been successful so far, there is a risk of significant interruptions in production if a particular supplier failed to provide the needed materials, or ceased operations. This gives the suppliers a relatively large amount of bargaining power, and is something Harley should be keenly aware of.

Harley began implementing the aforementioned strategies in 1993 and estimated that they would be able to reach their production goal by 1995, a full year ahead of schedule. Not only did they beat their estimated time for the new production goal, they went on to exceed the previous goal by producing 115,000 units-per-year in 1997.

Transportation Vehicle Segment

Harley-Davidson s transportation vehicles segment, Holiday Rambler, principally manufacturers recreational vehicles such as motor homes, travel trailers, and specialized commercial vehicles. These products are built using an assembly line process utilizing specialized fabricating and assembly equipment designed and built by Holiday Rambler. The company believes that its commitment to efficient manufacturing systems and utilization of the latest technological advancements enable it to produce high quality products.

A number of the secondary plastic component parts, used in the production of motor homes and travel trailers are actually produced by Holiday Rambler. However, principle raw materials such as, aluminum, plywood, fiberglass, and chassis are purchased from third party suppliers. Automobile and truck manufacturers such as Ford and Chevrolet provide the chassis.

The assembly lines, manufacturing processes, and equipment used to make the recreational vehicles are all interchangeable. This allows the company to utilize the same facilities to produce its complete line of motor homes, travel trailers, and specialty commercial vehicles. Employee skills are applicable to the production of either type of vehicle. This allows a smooth transition from one process to the next.

Human Resources

Motorcycle Segment

In order to survive in the competitive motorcycle industry and to continue to strive toward their commitment to quality improvement and production efficiencies, Harley-Davidson s management realized they needed to foster a perpetual learning and improving organization. The management believes that open communication between all levels of employees is essential to the success of the organization. In order to foster an organizational environment made up of employees who share the same vision and values as the company, Harley saw that it was necessary to communicate the company s high moral values, and educate the employees about the whole business environment. This quest for incorporating the company s vision and high moral values into the organizational structure and expecting the employees to believe in and carryout this same vision and moral values, could have been extremely difficult since Harley s workers are unionized. However, Harley s relationship with the unions is excellent. Both the company and the unions have stuck by each other during good and bad times. Because of this, the unions trust Harley s management and realize that their efforts toward continuous improvement and quality consciousness are in the best interest of the employees (Vroom, Vroom). Collective bargaining agreements between the company and the unions are expected to expire during the first quarter of 1997, but company and union relations are strong and there are no concerns about future agreements.

Transportation Vehicles Segment

Discussion of human resources and employee relations, within the transportation vehicle segment is limited. The segment employs approximately 2,400 people. The employees have no union representation and there is no discussion of any future efforts to unionize. The Holiday Rambler segment is committed to the continuous training and skills improvement of its current workforce, as is evident by the company s requirement that manufacturing employees maintain the flexibility to work on the production of any of its line of vehicles. Part of each employee s compensation package consists of production group incentives. These incentives allow an employee to increase their total compensation by meeting production goals and quality standards.

Information Systems

Harley-Davidson s commitment to manufacturing efficiencies, quality improvement, and technological advancements, provide evidence of the company s investments in information systems. By utilizing just-in-time inventory techniques through close, continuous, contact with key suppliers the company was required to expend a substantial amount of effort and resources towards the allocation of advanced communication systems. Management s earlier investments in Computer-Aided Design (CAD) systems in the early 1980s drastically increased production efficiencies and reduced the break-even point from 53,000 motorcycles in 1982 to 35,000 in 1986. Harley-Davidson seems to be making the necessary commitments in capital and other resources to stay competitive in this area.

Written Analysis of External Environment by Sector

Economic/Demand

The past few years has seen a global trend towards increased demand for virtually all industries involved in the manufacture of recreational equipment. Important to this analysis are the motorcycle, motor home, and travel trailer/camper industries. In particular, demand has been especially strong for made in the U.S.A. products. Primarily because the U.S. is the largest market for recreational products, and U.S. firms are aware of customer s tastes and preferences. Secondly, and certainly not of lesser importance, is the attention to high quality that U.S. manufacturers place on their operations. Companies are aware of the advantages and opportunities that strong demand in overseas markets will have on their business plans, and are therefore increasing their efforts to expand on export sales. The strong demand for recreational equipment in the overseas markets is growing so rapidly because of the increases in leisure time activities in newly industrialized nations and emerging market economies. Because of the increases and popularity of regional trade agreements/associations, forecasts for exports and imports of recreational equipment are expected to continue to rise (Recreational 39-3). The following page shows a table outlining U.S. trade patterns in recreational equipment.

Top five exporting countries 1996 value( $ Millions) % 1996 share %92-96 change

Canada 969 19.6 6.2

Japan 892 18.1 16.6

United Kingdom 324 6.6 7.2

Germany 314 6.4 4.9

Mexico 270 5.5 1.3

Top five importing countries 1996 value($ Millions) % 1996 share %92-96 change

China 7063 43.9 19.9

Japan 2603 16.2 -2.6

Taiwan 1622 10.1 -5.3

Canada 1110 6.9 30.8

Mexico 744 4.6 26.0

(Source: U.S. Department of Commerce, Bureau of the Census)

Motorcycle Division

The 1990 s have been called, by the motorcycle industry, the decade of the heavyweight motorcycle. The total unit share of the market accounted for by the heavyweight motorcycle industry increased from 18% in 1987 to approximately 39% in 1995. The U.S. domestic motorcycle industry, led by Harley Davidson Inc., has benefited most by this trend. While total motorcycle registration has been falling in recent years, this trend seems to be coming to an end, as 1995 s total motorcycle registration was the same as that in 1993, and only down by 0.5% since 1990, when 4.1 million motorcycle were registered.

(Source: Federal Highway Administration Motorcycle Safety Foundation)

Although total motorcycle registration has been declining, the consumers demand for the more expensive heavyweight motorcycles has increased the industry s dollar value of shipments. As heavyweight motorcycle sales continue to climb, sales of smaller, less expensive bikes are declining. This can be explained by the fact that younger buyers have traditionally been the major consumers in the motorcycle industry. Being younger, they typically had less disposable income to make discretionary purchases. Due to the greater availability of financing and other credit terms, younger buyers can now afford the more expensive heavyweight motorcycles (Recreational 39-13). Other reasons that could explain the increased demand in motorcycles, are the continuing rise in automobile prices and the convenience/efficiency of traveling on a motorcycle throughout heavily congested cities. Many consumers are purchasing motorcycles as a primary means of transportation to and from work. Not only is the cost of operating a motorcycle lower than an automobile, they are much easier to negotiate through heavy traffic.

Transportation Vehicles Division

More affluent Americans are the Motor home and travel trailer industries best consumers. This is a positive aspect, because of the aging trend in today s society. More and more people, having reached the age of retirement, have built up a substantial savings and are ready to buy that RV of their dreams (Encyclopedia 1250-51). The motor home and travel trailer industry is extremely susceptible to fluctuating interest rates, income growth, and consumer confidence levels. As the economy slows the industry tends to decline. However, if the economy is booming the industry thrives. Gasoline prices are also key variables in forecasting demand within the industry. The industry experienced a slow down in sales in the early 1990 s, but forecasters are optimistic about the future. The mid 1990 s have been particularly good for motor home and travel trailer manufacturers. With low interest rates, modest gasoline prices, and low unemployment, sales are up and expected to continue rising (Recreational 39-18). Industry spokespersons say that the number of U.S. households owning RVs was 8.2 million in 1994, up from 7.3 million in 1984 (Where RVs 15).

Summary

Overall, the outlook for demand within the motorcycle, motor home, and travel trailer industry looks pretty favorable. The most important factors seem to be the aging of the baby boom generation (as will be explained further in a later section), optimistic forecasts for economic indicators such as interests rates and income growth, and increasing demand in foreign markets.

Economic/Supply of Resources

The motorcycle, motor home, and travel trailer industries are heavily dependent on the supply of component parts and raw materials for their manufacturing operations. For example, Harley Davidson relies on an adequate supply of sheet metal, metal coils, aluminum bars/sheets, plastics, upholstery products, wiring, engine components, and tires, just to name a few, in order to produce its line of heavy weight motorcycles. Currently the outlook for the supply of these resources is good and is expected to remain favorable. Manufacturers are also heavily dependent on the current and projected levels of interest rates and fuel/oil costs. Money and capital financing is available to manufacturers at a reasonable interest rate, and the Fed is currently discussing another interest rate cut (Hardy 76). While gasoline prices are expected to rise modestly, no extraordinary increases are forecasted in the near future (Recreational 39-18). Unemployment is down from 5.6% in 1995 to 5.4% in 1996 and expected to continue falling. This is evident by the abundant supply of labor in all occupational skill levels. The supply of resources within the industry is very good and the future looks promising.

Economic/Competitive Factors

Motorcycle Division

The motorcycle industry is highly competitive, with the top five (Harley, Honda, Suzuki, Yamaha, Kawasaki) motorcycle manufacturers constantly battling for market share. Regional trade agreements/associations have had a profound effect on the increasing globalization of the economy. As barriers to trade continue to come down, manufacturers are forced to focus their efforts to become international competitors, or else risk losing market share. Companies engaged in the manufacture of heavyweight motorcycles have to contend with the increasing competition from the so-called copy-cat manufacturers. Harley Davidson, who is the leader in the heavyweight motorcycle segment, has had to be particularly aware of this increasing threat of competition. Demand for Harleys is so high that the company s manufacturing operations cannot keep up. This has led resourceful entrepreneurs to take advantage of Harley s inability to meet demand by assembling similar bikes using third party after market components (Recreational 39-13). Companies in the industry trying to add capacity by building additional manufacturing facilities face long expansion times, and run the risk of consumers switching to competitors products. In addition, high prices for heavyweight motorcycles are causing some consumers to switch to those competitors who are focused on reducing manufacturing costs and passing these savings along to the consumers.

Transportation Vehicles Division

Competition in the motor home and travel trailer industry is most intense in the U.S. Leaders in this industry are Fleetwood Enterprises, Winnebago Industries, and Coachmen Industries. The dominant factors of competition within this industry tend to be pricing, and innovative design features. Companies who are able to hold down manufacturing and production costs and competitively price their products are able to win additional market share (Encyclopedia 1998 1251,1320). Consumers of motor homes and travel trailers are primarily concerned with design features such as, comfortable living quarters, adequate storage facilities, ease of operations, and fuel efficiency. Top industry competitors are able to offer consumers these appealing options and affordable prices.

Economic/State of Economy

Because motorcycles, motor homes, and travel trailers are considered nonessential items by most buyers, the performance outlook for theses industries are tightly linked to consumer confidence, income growth, and other important overall economic indicators (Recreational 39-18). The trend in consumer s confidence in the economy can best be represented by the following graph:

( Source: ( Leisure-Time L17))

Currently, modest interest rates (Prime charges by banks = 8.44%) and increases in personal income have led to an increase in the overall level of confidence in the economy. Gross domestic product has risen from $7.2 billion in 1995, to $7.7 billion in 1996 (Statistical Abstract 459). However, many consumers spending habits have been restrained by a decreasing sense of job security due to recent corporate downsizing and the need to accumulate savings for retirement ( Leisure -Time L15). This has had only a modest affect on personal expenditures on recreational equipment. The recreational equipment industry continues to enjoy a rising trend in sales from $282 billion in 1990, to $432 billion in 1996. Unemployment in the economy was 5.6% and 5.4% for 1995 and 1996 respectively, and is expected to continue falling (Statistical Abstract 411,465). Analysts predict that inflation adjusted gross domestic will continue to rise year to year, and assuming a modest rise in prices, economic activity is expected to rise by 3.8% in 1996 ( Leisure-Time L15).

Two major factors within the global economy are having a profound effect on manufacturer s ability to boost foreign sales. The first of these factors is the recent trend in developing countries such as, Southeast Asia, who have experienced a surge in technological development and rising income levels. Secondly, trade agreements/associations have led to the establishment of large regional trading blocks, such as NAFTA, that are reducing trade barriers and increasing access to previously untapped markets. These trends are evident of the progressive shift towards a truly global economy, in which the boundaries and lines of business will continue to disappear ( Leisure-Time L15).

Socio-Cultural Factors

During the 1990 s a large portion of the U.S. population entered middle age, and more are expected before the end of the decade. As can be seen from the following graph, adults age 45-64 made up the largest percentage of the population in 1996.

(Source: ( Leisure-Time L-15))

Adults within this age group typically have more money available for discretionary spending. The importance of the observation on the aging population is significant to this analysis, in that these are currently the number one consumers in both the motorcycle and motor home/travel trailer industries. In particular, middle-aged baby boomers have embraced the lifestyle portrayed by owning a heavyweight motorcycle. This is especially true for Harley Davidson customers. Harley Davidson is renowned for selling more than just bikes . They also sell an image and a lifestyle, which portrays the American way of life. The motorcycle industry has coined a phrase for these middle-age motorcycle fanatics, RUBs (Rich Urban Bikers), and they have been targeted as the prime consumers of larger motorcycles well into the twenty-first century (Encyclopedia 1994 1216). This same group of consumers has also been responsible for sales in the motor home and travel trailer industries. The growth in demand for motor home and travel trailers, in the mid-1990s has been attributed to the growing population of aging baby boomers, who are retiring and have more time and money to travel and camp (Encyclopedia 1998 1320). Self-propelled motor homes are preferred by those individuals 65 and up, while the majority of travel trailers and campers are purchased by the 35 to 54 age group (Recreational 39-19).

One final note on the socio-cultural factors within the environment is that the motorcycle industry, in general, must still work at overcoming the negative stereotype of motorcycle safety. Some potential consumers are still apprehensive about owning a motorcycle because of often times misleading motorcycle accident statistics. Industry leaders can help overcome this image by educating their customers about their products and equipping their motorcycles with additional safety features.

Legal-Political Factors

Probably the most significant legal/political factor facing industry competitors is dealing with the various nuances of local customs and political infrastructures within overseas markets. As companies find opportunities to widen their market share in these foreign countries, they will have to become increasingly aware of the differences in culture and the acceptable business practices within each country/region ( Leisure-Time L15-L16). This issue will become increasingly important has our economy continues to move towards a more global arena.

Labor union negotiations are another factor that some companies will have to continue to stay on top of. As many companies in the industry have experienced, when negotiations break down this can have extremely negative results on production operations and the potential for lost market share to aggressive companies who are more than eager to take advantage any weaknesses in their competitors.

One other issue worth mentioning is Harley Davidson s recent legal dispute with Loews Corporation s Lorillard tobacco unit. Harley and Lorillard had previously entered into an agreement where Lorillard could use Harley s trademark on its cigarettes. Due to the increase in smoker s lawsuits against cigarette companies, Harley became concerned over the risk of potential related legal liability exposure. Harley decided to break their nine-year old licensing contract with Lorillard, and as a result, Lorillard filed a lawsuit. Harley and Lorillard have since reached a settlement over the licensing dispute, but the details of the settlement are still pending (Harley net B6). This issue is significant to other companies in the industry, in that it shows how organizations need to be aware of our societies changing cultural views and ideals in order to avoid costly financial mistakes and the loss of goodwill associated with brand name recognition.

External Opportunities and Threats Table

Below is a table identifying external opportunities and threats within the motorcycle and transportation vehicles industry segments. Based on our judgment, and knowledge gained through researching the industry, this group has ranked the most crucial environmental opportunities and threats in order of importance within each category.

Exter Opportunities and Threats Table

(Motorcycle and Transportation Vehicle Industry)

Opportunities Threats

Strong demand Competition

Customer Loyalty Country Specific environmental and traffic regulations

Largest market share Trade Barriers

Aging of the Baby Boomers Substitute Products

Growth Industries Limited Camping Facilities in Foreign Countries

Favorable Economic Indicators Differences in Culture and Business Practices in Foreign Countries

Rising Income levels in Developing Countries

STRATEGIC AUDIT

I. Current Situation

A. Past Corporate Performance Indexes

Return on Investment

+ Return on investment, which is often referred to as a firm s return on total assets, measures the overall effectiveness of management in generating profits with its available assets. Generally, the higher a firms total assets the better. As can be seen from the above graph, Harley-Davidson s ROI increased substantially from 1993 to 1994 (from11.4% to 21.9%), and is already nearing the 1994 figure within the first nine months of 1995. The reason for Harley s increasing ROI figures is that the company s earnings are increasing by a substantially greater proportion than the increase in total assets. From 1993 to 1994, Harley s earnings before interest and taxes (EBIT) increased 2.4 times, compared to an increase in total assets, over the same period, of only 1.3 times.

Market Share

+ Harley-Davidson has enjoyed strong market share dominance, within their heavyweight motorcycle division, over the past five years. The slight decrease in market share, from 1993 to 1994, is primarily the result of lost market share to competitors by customers who are discouraged over the lack of supply of heavyweight motorcycles and the unreasonably long wait times and production delays. However, Harley s recent expansion plans intend to alleviate this problem over the next five years by increasing capacity within existing facilities.

+ Harley s transportation vehicles ( Holiday Rambler ) segment has not experienced the same successful market share dominance as its motorcycle division. As can be seen from the preceding graph, Holiday Rambler s market share remained below 10% for all three of their different vehicle divisions.

This can be explained by the intense competition in the recreational vehicles industry, and consumer brand loyalty to long-time industry leaders, such as Fleetwood, Coachmen, and Winnebago.

Profitability/Net income

(Note: 1995 figure is for first nine months ending September 24)

+ The preceding graph illustrates record level earnings for Harley-Davidson, INC. during 1994 and 1995. Net income, for 1995, was approximately $80 million by the end of September, with three more months of earnings potential. Except for 1993, net income figures have increased annually over the past five years. The net loss experienced during 1993, was the result of a $55,600,000 (after tax) write-down of goodwill and other assets at the Holiday Rambler Corporation, and a $30,300,000 (after tax) one-time charge for accounting changes related to the companies postretirement health care plan and income taxes. The $30,300,000 charge for the postretirement plan and the income taxes were taken to bring the company in compliance with relevant accounting standards, and will have no residual effect on future earnings.

Summary of Current Situation

Harley-Davidson s management seems to be doing a good job generating profits with existing assets, as evidenced by their rising ROI figures. Harley s cornerstone business segment, the heavyweight motorcycle division, continues to hold a dominant share of the heavyweight motorcycle market, but competitors with viable substitutes have the potential to erode this dominant position if expansion efforts prove faulty. The company s transportation vehicles segment continues to struggle to keep up with the industry s main competitors, and has seen its market share dwindle over the past five years. Harley-Davidson, INC., as a whole, has been extremely profitable over the past five years. Net income figures are at record levels and continue to climb.

B. Strategic Posture

Mission

We fulfill dreams through the experience of motorcycling, by providing to motorcyclists and to the general public an expanding line of motorcycles, branded products, and services in national and international markets. [1998 Annual Report, pg. 9]

Objectives

+ Double production capacity to 200,000 motorcycles annually by 2003.

+ Increase the number of women who purchase motorcycle-riding apparel.

+ Gain entry in to the performance motorcycle industry and increase the sales of the newly acquired Buell Motorcycle Company.

+ Increase international market share by increasing the number of foreign dealers and improving the foreign channels of distribution.

+ Increase the availability of credit and lower the cost of credit for both the retail customer and the Harley Davidson Dealer.

+ Improve customer satisfaction and improve communication with European stakeholders by increasing dealer service competencies.

+ Harley-Davidson’s operating philosophy is as follows:

+ Be number one in customer satisfaction worldwide.

+ Produce at the rate of 1,000,000 motor homes per year in 1996.

+ Grow motor home demand on a controlled basis.

+ Improve quality, productivity, and flexibility.

+ Continuous improvement in product quality and value.

+ Expand distribution by continuing to grow the business throughout the world.

+ Domestic expansion is necessary for Harley-Davidson to maintain its market share in the United States.

+ International expansion is needed to increase market share in all of the foreign markets.

+ Strengthen and establish the brand identification for Bruell Motorcycles. Although Harley-Davidson has for years been known as one of the leading motorcycle manufacturers in the world, few people realize that Buell motorcycles are one of their products. Brand recognition will provide a competitive advantage for Buell in the sport motorcycle segment.

+ Strengthen the infrastructure for the production increases. Manufacturing facilities, equipment, and information systems must be in place and ready so that the expansion efforts will be successful.

Strategies

+ Vertical Integration

+ Harley-Davidson uses both backward and forward integration. More than 750 suppliers of goods and services are used in the design and manufacture of motorcycles, parts and accessories. The control of inputs is a necessary part of just-in-time manufacturing and is why Harley-Davidson has been backward integrating to maintain control over the quality of suppliers.

+ The channels of distribution are also an important part of any manufacturing company and it is for this reason that Harley owns most of its distributors. In addition to distributing completed motorcycles throughout the world, Harley-Davidson is responsible for the delivery of parts and accessories.

+ Market Development

+ Harley-Davidson actively pursues the opportunity to expand the sales of existing models of motorcycles to new customers and into new markets.

+ The Sportster line of motorcycles has proven itself as a champion dirt track motorcycle and is now being marketed toward women. Sportsters are more compact in design and lighter that the other Harley-Davidson models, which makes them perfect for female riders. There are also after-market kits available that will reduce the seat height and relocate controls for a customized fit for any rider.

+ Efforts are also underway to expand the sales of motorcycles in international markets. Harley-Davidson owned distributorships have been established in Japan, Belgium, France, Germany, and the United Kingdom. Independent distributors are located in Canada, Australia, Greece, Italy, Norway, Portugal, Spain, Sweden and Switzerland. There are 26 full line dealerships in the Latin American market, 98 in the Asia-Pacific market and 298 in the Europe-Middle East-Africa market. Harley-Davidson will also be setting up dealerships in Egypt and Romania in the near future.

+ Horizontal Diversification

+ Harley-Davidson has acquired Buell Motorcycles and Eaglemark Financial Services, inc. in order to provide new product lines for their customers. Buell was acquired in order to be able to provide customers with a V-twin powered Sport motorcycle. This type of motorcycle has become increasingly popular with the younger and European riders.

+ Harley-Davidson also owns Eaglemark Financing. Eaglemark provides motorcycle financing, motorcycle casualty insurance and extended service contracts for Harley-Davidson and Buell motorcycles. They also issue the Harley-Davidson Chrome VISA Card, allowing riders and customers to show their brand loyalty.

+ Focus/Differentiation

+ Harley-Davidson s business level strategy is Focus/Differentiation. They focus on heavyweight motorcycles and differentiate on the basis of quality and brand recognition.

Policies

+ Foster a retail customer satisfaction culture throughout the organization.

+ Enhance two-way customer communications.

+ Offer choices of higher, lower complexity products.

+ Improve control and support of distribution channels by strengthening partnerships with dealers.

+ Empower employees so they feel connected to the organization and reward them through gain sharing

SWOT Analysis Begins

II, Corporate Governance

A. Board of Directors

+ Board consists of six numbers

+ Internal members consist of Vaughn L. Beals, Jr., Chairman,

and Richard F. Teerlink, President and Chief Executive Officer

+ External members consist of William F. Andrews, Richard G. Lefauve, William B. Potter, and Richard J. Herman-Taylor

+ William F. Andrews, Chairman, Schrader Inc.

Monroe, North Carolina

+ Richard G. Lefauve, Group Executive, NAO Small Car Group General Motors Corporation Detroit, Michigan

+ William B. Potter, Independent Investor & Consultant

Preston, Maryland

+ Richard J. Herman-Taylor, President, Bioscience International Inc., Boston, Massachusetts

B. Top management consists of ten members

+ Top management consist of ten members

+ Vaughn L. Beals, Jr. 67 years old; Chairman

1.3% of stock

+ Richard F. Teerlink 59 years old; President and Chief Executive Officer; 2.84% of stock

+ Jeffrey L. Bleustein 56 years old; President and Chief Operating Officer Motor Company; .80% of stock

+ James M. Brostowitz 44 years old; Vice President, Controller and Treasurer

+ Thomas A. Gelb 60 years old; Vice President, Continuous Improvement; .18% of stock

+ C. William Gray 54 years old; Vice President, Human Resources; .17% of stock

+ Timothy K. Hoelter 49 years old; Vice President, General Counsel and Secretary

+ Martin R. Snoey 52 years old; President and Chief Operating Officer, Holiday Rambler

+ James L. Ziemer 46 years old; Vice President, Chief Financial Officer and Assistant Treasurer; .41% of stock

+ Michael B. Weiss 52 years old; Assistant Secretary

+ All individuals have been employed by the company in an executive capacity for more than 5 years, except Martin R. Snoey

+ Mr. Snoey has been President and Chief Operating Officer of Holiday Rambler since joining the company in January 1993

+ From January 1992 to December 1992 he held a general management consulting assignment with Precision Castparts Corporation, a specialty manufacturer supplying the transportation industry.

+ Top management is centralized

III. EXTERNAL ENVIRONMENT

OPPORTUNITIES AND THREATS (SWOT)

Motorcycle Segment

A. Societal Environment

+ Key economic indicators such as interests rates, inflation, personal income, and gross domestic product are favorable and expected to remain favorable.

+ Consumer confidence is high and increasing.

+ Younger buyers, who traditionally could not afford the heavyweight motorcycles, are able to obtain favorable financing and credit terms. This has led to an increase in demand from younger buyers.

+ Because of their lower operating costs, has compared to automobiles, many consumers are switching to motorcycles as a primary means of transportation.

+ Primary resources such as, sheet metal, metal coils, aluminum, plastics, tires, and wiring, used in the manufacturing of motorcycles and related products are in abundant supply.

+ Fuel and oil prices are expected to rise modestly, but no extraordinary increases are expected.

+ There is an abundant supply of quality labor in all occupational skill levels.

+ Regional trade agreements/associations are reducing trade barriers and opening up new opportunities overseas.

+ Income levels and technological advancements are rising in developing countries.

+ The aging of the baby boom population has increased demand for heavyweight motorcycles. The baby boomers are the number one consumer of heavyweight motorcycles. They are captivated with the lifestyle of owning a heavyweight motorcycle, and have the money to make discretionary spending.

+ Motorcycle manufacturers must ensure that they remain informed of the variety environmental and traffic/highway safety laws, to ensure that their products are not subject to fines and production recalls.

B. Task Environment

+ Consumer demand for heavyweight motorcycle is high and continues to rise.

+ Customer loyalty to the Harley-Davidson brand is extremely strong, and customers are willing to endure long wait times and higher prices to own a Harley.

+ Harley-Davidson maintains the market leader position in the heavyweight motorcycle division.

+ The motorcycle industry is a growth industry and competition is extremely fierce, both domestically and internationally.

+ Manufacturers must constantly be aware of the threat of substitute products that have the potential to erode existing market shares.

Summary of External Factors (Motorcycle Segment)

Harley-Davidson has a very loyal following of consumers. Strong consumer loyalty and demand have made it possible for Harley-Davidson to become the market leader in the heavyweight motorcycle industry. As the economy becomes more and more global, companies within the industry will have to contend with additional competitors. However, the globalization of the economy is opening up more possibilities to increase market share. Also, substitute products seem to be a fairly strong unfavorable force within the industry. Overall the numerous factors evaluated, and the outlook for the economy point toward favorable conditions. Probably the most significant external environmental variable is the aging of the baby boom generation, and their subsequent fascination with the lifestyle/image of owning a motorcycle. The factors within the external environment point toward growth, and there are no significant unfavorable factors that show otherwise.

Transportation Vehicle Segment

A. Societal Environment

+ The motor home and travel trailer industry is extremely susceptible to fluctuating interest rates, income growth, and consumer confidence levels. The mid 1990 s have been particularly good for motor home and travel trailer manufacturers. Low interest rates, modest gasoline prices, and low unemployment, have resulted in increased sales.

+ As manufacturers begin to explore market opportunities overseas, they must contend with country specific traffic and environmental laws. In particular, size restrictions in Japan and Germany, are forcing manufacturers to redesign there products in order to compete in theses markets.

+ As regional trade agreements/associations continue to lessen barriers to trade, manufacturers must learn to adapt to the differences in culture and business practices within foreign countries.

+ The recent trend in developing countries such as, who have experienced a surge in technological development and rising income levels, has opened up new opportunities in overseas markets.

+ The growth in demand for motor home and travel trailers, in the mid-1990s has been attributed to the growing population of aging baby boomers, who are retiring and have more time and money to travel and camp. This age group is the primary consumer for the motor home and travel trailer industry.

B. Task Environment

+ Competition is most intense within the U.S., where a few dominant manufacturers hold the largest percentage of market share. Primary factors of competition are, pricing and innovative design features. Globalization of the economy will make competition even more intense.

+ Campground facilities are few and inadequate compared to those in the U.S. Manufacturers must make special design modifications in order to deal with such variations as, electrical hook-ups.

+ Motor home and travel trailer industry is growing; as more people reach middle age and begin to retire analysts predict further growth.

Summary of External Factors (Transportation Vehicle Segment)

Overall Evaluation: Steady increases in sales within the transportation vehicles segment, and a positive forecast points toward the potential for growth in the industry. Key economic indicators all favor expansion within the motor home and travel trailer industries. Interest rates are reasonable, personal income is up, fuel prices are moderate, and consumers have an overall healthy outlook towards the economy. Probably the most significant factor, in regards to the motor home and travel trailer industries, is the aging of the baby boom population. These individuals will continue to make up the greatest percentage of the American population well into the next century. They are expected to continue retiring in greater numbers, and are the primary consumers of recreational vehicles. Increasingly fierce competition will make it difficult for under-performing companies to remain in the industry. The globalization of the economy will make it possible for Harley-Davidson to seek out new market share by taking advantage of increasing income levels in developing countries. Competition will become more intense as foreign companies try to enter the U.S. market with innovating designs and lower prices. All competitors must strive to remain up-to-date with the latest regional/country specific environmental and traffic safety regulations. With only a few minor unfavorable external environmental factors, the outlook for the industry points toward growth.

IV. INTERNAL ENVIRONMENT:

STRENGTHS AND WEAKNESSES (SWOT)

A. Corporate Structure

+ Harley-Davidson s decision-making authority is decentralized into three standing committees totaling twenty-five executives, known internally as the circles of leadership . They manage the company around issues of customers, production, and corporate support. Each group reports directly to the CEO, Richard F. Teerlink. Successful implementation of this program occurs when there is commitment at all levels of organization. Top management must not only direct but take direction from the lower level employees. In order for top management to feel comfortable with this they must encourage education for employees of the company objectives and develop a trust that employees will make the right decisions. To implement this strategy