

Stripped-Down Harley Rebounds From Recession

M.L. Johnson, Associated Press

MILWAUKEE (AP) — Some motorcycle enthusiasts feared Keith Wandell might be the outsider who drove Harley-Davidson into the ground. Instead, he may be remembered as the guy who kept the motorcycle maker on the road.

Wandell grabbed the handlebars at the motorcycle maker in the heart of the economic crisis in 2009. Harley lost \$55 million that year, as buying a motorcycle stopped being an option for many consumers.

"We had to make, quickly, some big, bold decisions," he said in a recent interview.

Wandell was the first CEO from outside Harley, so those decisions were watched closely. Not all were well-received. He got the union's approval to use temporary workers, which enabled Harley to time its production closer to the peak bike-buying season, saving time and money. He relied less on middle-aged men in the U.S. to buy the bikes. And he focused the company on doing what many say it does best: making big, powerful, premium-priced Harleys. But that meant getting rid of some popular secondary brands.

The company made \$624 million last year, the best annual profit since 2008. It also boosted profit by 30 percent in this year's first quarter, compared to the same period in 2012. With lower costs and more efficient production, analysts say Harley is in a good position to grow as the global economy improves and in better shape to weather any future downturn.

"We've just got an awesome future," Wandell summed up in a recent interview.

It's a far cry from when he started. The recession and credit crisis sent shockwaves through Harley, a company that had done so well for so long that there was little incentive to innovate. In the early 2000s, many dealerships had waiting lists of buyers, and sales and profit grew year after year. Then, in one year, bike shipments dropped about 25 percent and the company laid off hundreds of workers.

The rapid change left employees stunned, and the introduction of Wandell, who didn't even own a motorcycle at the time, was another blow.

"You can just imagine. This was like, for the company, everything was upside down," said the 63-year-old Wandell, who came from car battery and building ventilation systems maker Johnson Controls Inc., also based in Milwaukee. "I mean, how can they bring in somebody from the outside? What the hell is going on? The economy's in the tank. Sales are down. It's this, that. People were just churning."

Harley had many of the same problems as the Detroit automakers: a big union labor force, old manufacturing processes and strong competition from Japanese

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companies with cheaper models on the market. It also had one additional, major disadvantage.

"A luxury motorcycle, for most people, isn't necessarily a commuting tool," said Rommel Dionisio, an industry analyst and senior vice president of equity research at Wedbush.

Under Wandell's direction, Harley angered many riders when it pruned popular divisions. Fans of Buell racing bikes were as avid as Harley enthusiasts, and many were offended when the company closed the division. Harley surprised others by selling Italian premium sport-bike maker MV Agusta just a year after buying it for \$109 million.

Wandell, who now owns four Harley bikes, stands by his decision. "We only had a fixed budget for product development, and we were spending it on three brands," he said.

Harley modernized its operations in York, Pa., and renegotiated key union contracts so that it could use temporary workers to ramp up production quickly as it heads into the summer, when bike-buying peaks. In the past, the company estimated eight or nine months out what customers would want. If it was wrong, dealers had to trade bikes with each other to fill orders, costing them and Harley money. Now, Harley has to look ahead only a few months, making its predictions more accurate.

Harley needed to "make the right bikes at the right time and get them to the right place," Wandell said.

The company is in the midst of a similar but smaller transformation of its Kansas City, Mo., plant. By the end of this year, it will have spent \$490 million to modernize, an investment it expects to save it \$320 million a year in manufacturing costs.

As a result, profits are now rebounding faster than bike sales, said Bill Selesky, an industry analyst for Argus Research.

"It comes down to one thing ... They can produce a bike as good, if not better, at a cheaper cost," Selesky said.

Jim Waltermeyer, the local union president in York, said the overhaul was difficult for long-time workers. They saw friends and co-workers get laid off or retire, and had to learn new ways of doing their jobs. Many felt that they had no choice, and the poor economy made it an ideal time for Harley to make changes, he said.

"People wanted to make sure they kept their jobs," Waltermeyer said. With sales back up, many are hoping for more stability and security, he said.

Greg Schreck, director of the Harley Owners Group's 400-member Milwaukee chapter, said some riders may have been skeptical when the company put a non-rider in charge. But Wandell gained credibility by showing up at "bike night" at the

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Harley museum and taking a ride to Sturgis, S.D., where hundreds of thousands of motorcyclists gather each year. Schreck said when he sees Harley's stock price climb higher, "it just reaffirms the confidence" in the brand.

Harley's stock hit a nearly six-year high on May 19 when it closed at \$59.48. Since the market bottomed on March 9, 2009, Harley's stock has gone up six-fold, while the Standard & Poor's 500 index has more than doubled.

Harley Owners Group, or HOG, has been a major asset in broadening the company's appeal beyond middle-aged men like Schreck, a 57-year-old transportation consultant.

Crystal Swift, a 53-year-old computer systems engineering team manager who lives in Charlotte, N.C., said her introduction to Harley came when she and a group of Vespa riders crashed a HOG party. She bought her first Harley in 2005 and now owns a 2012 Street Glide and a 2002 Fat Boy that she bought used in December.

With Harley, "you are a member of a brotherhood, or a sisterhood, that I can't even imagine unless you are in the military," Swift said. "It isn't just that it's a much better made machine. It comes with the lifestyle."

Harley makes big bikes — those with engines at least 600 cubic centimeters. It has a 56 percent market share in that category, Dionisio said. It's also the top seller in every subcategory — young riders, women and minorities, and its market share has been growing since Wandell took over. For example, Harley's market share among women grew to 62 percent last year from 50 percent in 2008, according to company data. With young adults, its market share grew to 46 percent from 32 percent in the same period. Among African-Americans, it grew to 51 percent from 38 percent.

But continued growth is a challenge.

Harley bikes tend to cost more than other brands, an obstacle for some shoppers. Jason Buettner, a 34-year-old information technology worker from Sugar Land, Texas, said he took a riding class at a Harley dealership before paying about \$5,000 for a 2008 Yamaha YZF-R6S last spring. He said he figured a Harley would cost him \$12,000 to \$15,000, and he viewed it as a brand for "older guys."

Chief marketing officer Mark-Hans Richer calls that a common misperception, and says the company has reached out to younger riders. A tongue-in-cheek ad aimed at hipsters notes that an entry-level, \$8,000 Harley costs less than "another tattoo, a parking ticket, a gas station burrito, a lip ring."

Ira Carnahan, an analyst for T. Rowe Price, one of Harley's largest shareholders, said the company has made a strong turnaround, with sales growth, a lowering of costs and restoring the company's financing business, which handles bike loans for many Harley buyers. He credited the company's new management, which includes Chief Financial Officer John Olin and Chief Operating Officer Matt Levatich, along with Wandell.

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"All three of these guys have done a tremendous job of taking what was a difficult situation and really making tremendous progress," Carnahan said.

Several analysts said they believe Harley's greatest potential for growth lies overseas. The developing economies of Latin American and Asia are particularly promising, they say, since the first vehicle many people buy in those regions is a motorcycle, not a car.

"They are riders, they have disposable income and they recognize the iconic brand," Dionisio said.

About three-fourths of the 93 new dealerships Harley has opened in the past five years have been in developing countries. But Wandell said the U.S., with more than 650 dealerships, remains the most important market. Sixty-five percent of the bikes Harley shipped last year went to domestic dealers.

The company will unveil the first model to come from its new design process at its summer dealer meeting. Wandell wouldn't give details but said he thought it would show the company made the right decisions.

"I'm the guy who ruined the company, I got it," he said. "But I tell you what, history will tell us."

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