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Harley-Davidson

Be a Hells Angel for the weekend

MEMO: HARLEY-DAVIDSON TO HELLS ANGELS. SUBJECT: Thanks for all the bad publicity.

It hasn't quite happened yet, but Harley-Davidson certainly owes a debt of gratitude to the outlaw motorcycle club that adopted its products in the 1940s and gave them a bad name.

Harley-Davidson's checkered past holds tremendous appeal for Baby Boomers, who are attracted to the brand as a symbol of freedom and rebellion. The Hells Angels still ride Harleys, but the typical buyer is now a forty-something, well-heeled professional, looking to reclaim a little of his or her youth on the weekend. "Born to be Wild," proclaims a popular riders' T-shirt, adding in smaller letters underneath: "At least for a couple of days."

Nostalgia has offered the last remaining major American motorcycle manufacturer a second chance and its executives have made the most of it. As a maker of motorcycles, Harley-Davidson was long ago left behind by the competition, but as a luxury lifestyle brand, it has plenty of spark left.

For most of its one-hundred-year existence Harley-Davidson mirrored the fortunes of other great American industries. It was founded in a wooden shack in Milwaukee, Wisconsin, by twenty-one-year-old William S. Harley and twenty-year-old Arthur

Davidson, who in 1903 put the finishing touches on their prototype for what was essentially a motorized bicycle. They were soon joined by two other partners, Arthur's brothers Walter and William. In 1909, the partners made an engineering breakthrough, designing a new engine called a V-twin that gave the bikes of the day a handy top speed of sixty mph. That basic configuration is still the heart of many Harley-Davidson motorcycles today, giving the machines their distinctive discordant rumble. (In 1994, Harley-Davidson even attempted to trademark the sound, described by the company's attorney as "potato, potato, potato.")

In World War I, the U.S. Armed Forces ordered 20,000 motorcycles from Harley-Davidson, and by 1920 the company was the largest manufacturer of motorcycles in the world. It sold another 90,000 to the army in World War II. The brand proved reliable and remained popular with servicemen on their return to the United States, some of whom banded together in motorcycle clubs.

On July 4, 1947, some 4,000 enthusiasts rode into a small town called Hollister, California, for a weekend of racing and drinking, events that were sensationalized by the press and later made into the Marlon Brando film *The Wild One* (though, for the record, Brando rode a British Triumph).

Another date not mentioned in Harley-Davidson's official company history is 1948, the year a group of enthusiasts in San Bernardino, California, formed a club called the Hells Angels. Several accounts claim they were former servicemen from a B-17 bomber known as Hells Angels; the club says that is untrue, though the name had been used by several bomber and fighter squadrons during World War II. Their ride of choice was the Harley-Davidson: big, loud, and most importantly, made in America.

The Angels and other clubs loved to customize, or "chop," their bikes, a look that was immortalized in the film *Easy Rider*. Not that Harley-Davidson wanted anything to do with it, according to former Hells Angels president and author Sonny Barger. "After we

fixed our bikes the way we wanted them they didn't even want us inside their dealerships," he said. "Now they make them like we used to build them."

By the 1960s Harley-Davidson, since 1953 the sole American-based motorcycle manufacturer, was coming under increasing competition from Japanese brands such as Honda, which offered lighter, technically superior bikes at a lower price. In 1969 Harley-Davidson was bought by the American Machine and Foundry corporation (AMF), a move which at first seemed positive: AMF's capital would help Harley-Davidson see off its new challengers. But quality suffered, with as many as one in two bikes failing assembly line inspections, and Harley-Davidson lost its reputation for reliability. By 1981, Harley-Davidson's market share had dropped below 5 percent and it was even second to Honda in the super-heavyweight category that it had traditionally dominated. AMF wanted out, eventually handing the company back to thirteen Harley-Davidson executives in a highly leveraged management buyout.

The timing could not have been worse. A recession saw sales fall further and the company had to lay off half its workforce. In its first year and a half of independence, the company lost close to $30 million.

In a last-ditch move to save the business, Harley-Davidson successfully petitioned the government for tariff protection against Japanese imports in 1983, hoping to buy breathing space. President Reagan gave them five years, boosting the tariff on Japanese motorcycles over 700 cc from 4.4 percent to 49.4 percent.

The management team, including current chairman Jeffrey Bleustein and Willie G. Davidson, grandson of cofounder William Davidson, modernized the plant with Japanese-style just-in-time processes. Instead of spending millions on advertising (which they didn't have), they started a club called the Harley Owners' Group in 1983, to build on the fraternal feelings enjoyed by Harley riders. "We were doing 'close to the customer' marketing

before it even had a name," Bleustein said in 2003. Today the club has over 900,000 members worldwide. The company also runs rider education courses and offers organized rides through its travel arm, including several U.S. French-language tours for fans from Europe.

Bleustein's team began to realize the potential of the brand when, from 1986, they began to encourage dealers to abandon the traditional layout of showrooms, where every inch of floor space was filled with bikes, in favor of airy spaces that showcased just four or five machines and used the rest of the space to promote Harley-Davidson merchandise. Today, the company makes around 15 percent of its sales from riding accessories, and up to another 10 percent in souvenirs such as bridal wear and—just in case you needed proof this had become a luxury brand—a $995 one-hundredth anniversary watch from Bulova.

Between 1995 and 2000, the company doubled capacity to meet demand, balancing its customers' nostalgic feelings for what a Harley-Davidson should be with technological improvements to meet expectations of reliability. In 1998, Harley-Davidson bought out the Buell sports bike company to expand its offerings to younger riders; to date, though, Buell is still a tiny part of the business.

Today, the company is America's second-largest motorcycle manufacturer, just behind Honda, with sales of over 350,000 bikes annually. More importantly, it once again owns the big bike market. So where to from here? When Harley-Davidson launched its first genuinely modern model in fifty years, 2001's futuristic V-Rod, it was derided by traditionalists as lacking the classic engine note. Meanwhile Harley-Davidson is stuck with a big-spending but aging core market of Baby Boomers. And even they are not entirely predictable. In 2003, a crowd of 100,000 riders—mostly mild-at-heart professionals—converged in Milwaukee for the company's one-hundredth anniversary concert. At the height of a successful evening, the company brought out its surprise special guest—not

the Rolling Stones, as had been rumored, but Elton John. Thousands walked away early in disgust.

NOTES

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Four Seasons Hotels

Never break the promise of your brand

Isadore "Issy" Sharp's first Four Seasons Hotel opened in a seedy district of downtown Toronto in 1961. In order to distract his patrons from the "nightlife" on the street, the former architect devised an inner landscaped courtyard with a pool, an outdoor café, and entertaining areas away from the fray. The hotel was buzzing from the start. Room rates were just $12.50 a night (around $75 in today's terms)—a far cry from the rates Four Seasons hotels charge today, typically the most expensive in their area. Over four decades, Four Seasons has become a $1.8 billion hotel group that manages more than sixty luxury hotels in twenty-nine countries.