



## Harley Hits The Skids?

*Where Does The Motor Company Go From Here?*

Shares of Harley-Davidson stock plummeted from the year's high of \$63.75 to a low on April 15th of \$45.80. All the Harley "short-sellers" and historic naysayers celebrated this drop in the value of HDI shares. After all, they've been predicting this for each of the past 10 years. Yes, it is a relatively large drop in share value, but let's put it in perspective.

First, the Dow Jones Average had a high 12 months ago of 10,500. By tax day on April 15th, the value had dropped to 10,088. What else happened? We all know that the price of gasoline rocketed to an all-time high in that same time frame. Consequently, the entire automotive, truck, and yes, powersports industry is also suffering the downturn. The major auto makers — both domestic and foreign — are offering huge discounts to rid themselves of overstock, yet they continue to produce more vehicles.

So what caused the drop in HDI shares? The Motor Company did it themselves by notifying Wall Street they were going to reduce the total number of 2005 model units for shipment. At the same time they said their profits, which have been outstanding, would be slightly less so.

That was enough to encourage some so-called analysts to write pages of self-fulfilling prophecies claiming they knew it would happen all along. Some alluded to the market not being comfortable with the new management, namely, CEO Jim Ziemer. The only comment I can make about these opinions is a two-letter acronym: BS! How many analysts know anything about motorcycles? How many have ever even ridden one?

For the past decade, demand for Harley-Davidson motorcycles has exceeded the supply. Each year Harley produced more units than the previous year, however, no matter how much they increased production their dealers and customers still wanted more.

The demand was so strong that many dealers resorted to selling at what was euphemistically called "market pricing." That's a more pleasant way of saying that they would sell a bike for several thousand dollars over MSRP. There were different ways to accomplish this. One was a straight \$X,XXX over MSRP. Another was to insist the purchaser also buy a few thousand dollars worth of accessories. Some dealers would only sell the consumer a new bike if he/she traded in an older Harley. Still others would only sell to previous buyers within his/her trading zones.

Harley has never been happy with market pricing. I suspect they feared the brand could be thought of as an elitist's toy not available to the common man. There has been some feedback from customers who resent being asked to pay thousands more than MSRP. Some industry people believe the brand would have more buyers if the bikes sold above MSRP didn't rival the price of some fully equipped automobiles. Many market

price dealers now find themselves overstocked and having to offer their bikes at MSRP. That change alone could spark incremental sales.

As with any brand, not all Harley models are in equal demand. Some models are still in very short supply, while others are more plentiful. Harley-Davidson is aware of that, and their advertising campaign is focusing on selling more models, not just the high-demand bikes.

So what does this mean to dealers and their customers? Plenty — and it's all positive. First, reducing availability fulfills the marketing paradigm of previous board chairmen Rich Teerlink and Vaughn Beals. I remember Rich telling an audience that his goal was to keep Harley-Davidson "one short," meaning he was intent on keeping demand slightly ahead of supply. However, for too many years demand has been much higher than the supply, which created year-long waiting periods and extravagant prices.

As long as demand is ahead of supply, fewer dealers are likely to start discounting. If the demand stays only slightly ahead of supply current board chairman Jeff Bleustein's wish to see more dealers selling at MSRP is likely to happen.

What about the consumers? They can anticipate the value of used Harleys will remain above the value of competitive bikes. Dealers should not be focused on what's happening on Wall Street. They are retailers and should focus on creating satisfied customers and selling products for a reasonable profit instead.

I think Wall Street overreacted. At the same time Harley was telling the folks on Wall Street about reducing production and making less profit, they also said they were still on target to produce 400,000 motorcycles in 2007. Keep in mind that the 2007 bikes will become available to dealers in about 15 months. I find it interesting that when Harley-Davidson first offered stock the per-share price was \$11. Shortly thereafter the stock fell to \$7. Then the "Cinderella Effect" took place and Harley's stock rose to over \$50. Since then it has split two-for-one about four times, if memory serves. What will the future hold? I do believe that when the entire economy shakes off its fear relating to the stock market, Harley's stock will rise to its former glory.

What's the key? Harley is setting up more points. The dealers they are selecting to operate these new stores are a diverse group with several things in common — they are aggressive, creative, motivated and dedicated. Most are avid motorcyclists — owning and operating a Harley store is their dream come true. As each new store opens, Harley can expect to ship several hundred more motorcycles. Once they achieve their goal of 400,000 bikes in 2007, the value of HDI stock will reflect Wall's Street's once-again positive view of Harley-Davidson's potential. 🏍️