

## THE HOG AND STRATEGIC EXECUTION

by [Steve Brown](#)

It was the 80's and motorcycle icon Harley-Davidson ("HD") was losing market share to Honda and Yamaha. Japanese motorcycles were not only faster and sleeker, but had better price points. In 1973, HD controlled 77% of the US market. By 1983, that share was down to 23%. After a 2Y brainstorming session by management, a new strategy was launched that entailed multiple disciplines across the company. First, a product audit was conducted and various scenarios were run. From this analysis, it was determined that the most lucrative market was the performance cruiser segment, since this group was not about speed, but style. Margins were higher and the aging baby boomer demographic would play nicely into it. In order to capture the much sought after boomer market, HD knew that the bike had to appeal to a 30-year old demographic since no boomer wanted to ride a bike built for senior citizens. Once established, the 2nd phase of the plan was to market to the lucrative 40-55 year old cohort. In conjunction with the rollout of the new V-rod performance cruiser, HD also launched 2 lower-priced products to broaden its appeal to a younger and more price-sensitive customer. For the V-rod performance cruiser, HD chose a price that was the 2nd highest in the market, to both increase margins and provide a quality image placement. Tactically, the bike manufacturer increased marketing to differentiate itself as an "American Icon," played up its V-rod technology and decided to expand its customer base by marketing to non-motorcycle enthusiasts and specialty market segments (such as woman and the Hispanic market). A full 80% of the marketing budget was spent during the peak buying months of Sep. to Dec. in order to have the greatest impact. Instead of selling a product, the Company sold a lifestyle. To this day, HD has one of the best product websites that we have seen. Finally, the Company had to rework its distribution channels. To do this, it chose to open up larger stores with a luxury image in high-density blue collar areas. It augmented this rollout with an interactive website, to allow users outside of their store locations to conduct research and compare models. Within 20 to 100 miles of each store, it arranged a series of demo events to further extend its customer reach. By 2005, the strategic plan and execution was a clear success. Revenue was at a record and market share is estimated to be 63%. While we have talked little of banking in this article, Harley-Davidson's strategic and tactical plan can service as a direct road map for banks looking to increase profitability. As your institution plans for 2007, focus on how each product line is going to address the needs of different target customer segments and ask: 1) What enhancements are going to be made and why, 2) Is the product priced appropriately to support the goals and brand of the company, 3) Is the product supported by the correct amount of marketing and advertising, 4) How is the product being promoted and sold in addition to marketing/advertising, and, 5) Can distribution channels be better aligned. Harley-Davidson stands as not only an icon to Americana, but also to banks seeking a role model for strategic execution.

### BANK NEWS

#### Acquisition

United Community Banks (\$6.3B, GA) will buy Southern National Bank (\$329mm, GA) for \$66.5mm in stock, or about 2.9x book.

#### Acquisition

Community Banks (\$3.3B, PA) will acquire the parent company of BUCS Federal Bank (\$143mm, MD) for about \$22.6mm, or 1.83x book.

**Acquisition**

Royal Bank of Canada will acquire American Guaranty & Trust for an undisclosed sum, as the bank expands its asset management business. American Guaranty has 30 employees and administers more than 1K trusts.

**Acquisition**

UBS will acquire KeyCorp's McDonald Investments brokerage unit for a reported \$280mm. UBS picks up 340 advisors offering financial planning and retirement advice to individuals with assets totaling \$30B, as well as 51 offices in 14 states.

**Acquisition**

JPMorgan Chase said it will open 12 additional supermarket branches in MI, creating the state's largest branch network with 280 locations. JPMorgan Chase also has 390 ATMs in the state.

**Competition**

First Horizon National, the parent company of First Tennessee Bank, has partnered with CompuPay to provide payroll tax filing and HR services to business customers. CompuPay is the largest privately-held payroll company in the country, doing business in all 50 states.

**Final FDIC Rule**

The FDIC adopted the final rule revising deposit insurance. The changes increase the limit for "certain retirement accounts" (self-directed or "open" accounts) from \$100k to \$250k; provide per-participant coverage to employee benefit plan accounts, even if the depository institution at which the deposits are placed is not authorized to accept employee benefit plan deposits; and provide for an inflation index to be applied to the current maximum deposit insurance amount.

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