The Importance of Benchmarking:

Acquiring a Brand and Making it Work.

THE OPPORTUNITY:

"Create a Profitable Business Model for the Motorcycle Industry."

The Situation

The late nineties, the height of the dot com bubble, was a time of what seemed to be endless investment opportunity. Forming companies with the intention of quickly spinning off the company in an IPO was a common practice. As a result, companies focused more on short term strategy (immediate increase in sales and brand recognition) than on long term strategy (sustainable profitability).

This case involves a group of investors who resurrected an American icon motorcycle brand in the late nineties in hopes of taking the company public on the coat-tails of the success of Harley-Davidson (HD). While their was no question that the investors were financially savvy, they were also quick to copy the operational strategy of HD, without fully understanding why the HD strategy worked and without researching the strategies of other top motorcycle companies worldwide. This was their downfall.

The Brand was a classic American icon with the potential to be a serious contender to HD. For these reasons the investors made what seemed like an obvious leap to copy the industry leader's (HD) strategy.

Our brand had gone bankrupt back in the 1950's and since then had not built a bike. Investors purchased the brand name with the idea of buying a custom bike shop, and assembling mostly off-the-shelf HD copy parts into motorcycles which would be sold using the legendary bike name. However, while both HD and our resurrected motorcycle brand both had strong brand recognition. HD was manufacturing 200,000+ motorcycles per year while our brand was manufacturing about 4,000.

The investors created motorcycles using as much of the HD operational model as possible: if HD welded their own fuel tanks, this company would do the same. Manufacturing frames in house? Same. And so on. Initially demand for our brand was high; however, the cost was even higher. Even cutting the Bill of Material (BOM) cost by 50% would not have been enough to be profitable. The custom-bike design approach was cost prohibitive, and the math that worked for a manufacturer of 200,000 bikes per year wasn't even close for a manufacturer of 4,000 per year.

Dot Com Bubble Burst

In the summer of 2001, the dot com bubble had burst and investors sold their resurrected motorcycle brand to a private equity firm, losing tens of millions.

The private equity firm's strategy for our resurrected motorcycle brand was to continue with the same business model, but to use the firm's analytical capabilities and operational skills to reduce costs by analyzing and implementing changes to internal processes while pushing sales volumes as much as possible.

At this stage the PE firm hired Pied Piper founder, Fran O'Hagan to run engineering, design, product management and marketing, to finish the development of a critical product that had stalled at only 50% complete.

The Approach

Measure, Measure, Measure.

We finished the critical product on time and on budget, but along the way realized that the custom-bike/HD approach to the motorcycle business simply wouldn't work with a realistic sales volume. The custom bike/HD operating process was far too costly to sustain, and simple cost cutting procedures were not going to fix the problem.

We launched a quick motorcycle benchmarking study and discovered that out of the top 10 worldwide motorcycle brands, HD was absolutely unique in their approach to motorcycle manufacturing operations. While plenty of other manufacturers could operate profitably selling 30,000 or even 10,000 motorcycles per year, HD would be spectacularly unprofitable at that level.

The difference? Even established brands such as Honda or BMW would outsource manufacturing operations to specialists. ("Let your back room be someone else's front room!") Frames would be delivered by an Italian frame specialist. Fuel tanks by a German fuel tank specialist, and so on, for as much as 90% of the value of the motorcycle. Plus, the specialists would be up to date on all current technologies and cost saving opportunities. A BOM cost of $14,000 per motorcycle all of a sudden turned into a $5,000 BOM cost, and at much higher quality. This discovery revealed that the HD/Custom Bike model was clearly NOT the direction to follow.

Influence

In order to remain in business, our brand company needed to change their approach to design, and fast. They needed to first design a bike, then approach OEM suppliers to supply the parts. This was the way virtually every other motorcycle manufacturer ran their business. Even HD had adopted this approach for the development of their latest product: the V-Rod.

The Result

Our company kicked off the design of a bike with a BOM cost that was 70% less than the original BOM cost, promised a unique design of the highest quality. This reduction was achieved by complementing company engineering capabilities with outside experts, and sourcing 90% of the components from established, international motorcycle industry suppliers. Simultaneously, demand for existing products was soaring, with new sales records each month.

Unfortunately the launch of the new, much more profitable products was still almost two years away, and the company had already burned through nearly $100 million of investor funds following the old HD/Custom Bike operational approach. The investors ran out of funds, and new funds were late in arriving. The company ground to a halt.

Had the original group of investors benchmarked how motorcycles were built throughout the world (profitably at low volumes) prior to committing to their HD/Custom Bike operating strategy, our resurrected brand could have been a serious contender in today's motorcycle market.

LESSON LEARNED:

"Learn from the operations of others who have already wrestled with the same issues you're facing."