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Harley-Davidson's Hurdle: Attracting Young Motorcycle Riders

CEO wants to get videogame generation off of the couch and onto a bike

By JAMES R. HAGERTY

June 19, 2015, MILWAUKEE— Harley-Davidson, long associated with the 1960s counterculture movement, now needs to spark a new one.

The motorcycle maker's new chief executive, Matt Levatich, is spending much of his time thinking about how to pull today's young people away from their electronic devices and onto the road. The 50-year-old Mr. Levatich, the first Gen X CEO to hold the top job, is counting on lower-priced bikes designed for urban riding and eventually a battery-powered alternative to the classic Hog.

Mr. Levatich doesn't deny the power of the virtual world that keeps many young people indoors. "I'm in the camp of: It isn't bad, it's just different," he said. Still, he thinks there will be "a little bit of counterculture down the road.... People are going to want to actually live for real, and I think we have a product that has a great fit with that outlet."

Harley's Street models, priced as low as \$6,800, are supposed to dispel the idea that only grizzled boomers can afford a Harley—many of which sell for more than \$30,000. Harley also has demonstrated prototypes for a battery-powered LiveWire motorcycle designed for young, urban riders who think gasoline engines are bad for the planet. That sleek bike landed a cameo in the recent movie "Avengers: Age of Ultron." But Mr. Levatich said Harley won't be able to start selling the LiveWire for at least two or three years because it needs to await better battery technology.

Baby boomers will remain big customers for many years, Mr. Levatich said in an interview in his office, where he works at a stand-up desk perched on vintage hardwood floors. Harley is catering to them by offering three-wheeled models and lower-slung two-wheelers that are easier to mount.

But, he said, “for me, the most important segment is young adults—the incoming. Are teenagers choosing to join the sport?” He gets some clues from his sons, aged 17 and 19. Mr. Levatich, who began riding motorcycles at age 8, bought his sons a dirt bike a few years ago and showed them how to ride it.

“Did they take to it? Not like I did,” he said, adding that he didn’t push them. When his elder son, Sam, arrived at Yale University as a freshman in 2013, his roommate was astounded that the son of a top Harley executive didn’t ride motorcycles. After finishing his freshman year, Sam Levatich came home and got his motorcycle license.

Harley will be more discriminating in deciding which of its models to favor with investments in new engines and other updates, he said. **Priority will go to those that can appeal to younger adults, women and minorities as well as the core market of older white men.** Some bikes that appeal only to the core audience may be allowed to fade away.

Mr. Levatich, a 21-year company veteran, took the wheel May 1, 10 days after Harley upset the stock market by reporting a first-quarter drop in U.S. market share, a decline it blamed mainly on discounting by rivals. The stock fell 10% on the share drop. On Thursday, the stock gained as much as 5.2% on a more aggressive stock buyback plan.

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“Everybody’s gunning for them,” said James Hardiman, an analyst at Wedbush Securities. Japanese rivals such as Honda Motor Co.<http://quotes.wsj.com/HMC>, benefiting as the strong dollar inflates the yen value of their U.S. sales, have cut prices. Polaris Industries Inc.<http://quotes.wsj.com/PII> has revived the Indian motorcycle brand and is building up its dealer network. Harley still had a commanding 51% share of the U.S. market for heavyweight motorcycles in the first quarter, but that was down from 56% a year ago and a peak of 58% in the final quarter of 2013.

Mr. Levatich said Harley is telling its U.S. suppliers they need to be “globally competitive,” able to match the costs of overseas rivals, despite the dollar’s rise. Harley already uses imported parts, including wheels, some brakes and suspensions. It could buy more parts overseas, he said, but won’t make hasty decisions. “We’re not going to jack around,” he said.

Harley is making some of its new Street-model bikes in India—a departure for a company that has long said customers expect Harleys to be American-made. That is partly because Asia is likely to be the biggest market for Street motorcycles in the long run, he said. The Street brand, launched last year, features smaller, nimbler bikes designed for urban riding. Harley may eventually make other models overseas to supply foreign markets, he said.

Motorcycle revenue outside the U.S. has been stuck at about 32% of the company’s total for the past six years but is up from 18% in 2004. Harley aims to grow foreign sales faster than U.S. ones as it adds dealers in China, India and Latin America.

Mr. Levatich’s predecessor, Keith Wandell, 65, was brought in as an outsider in 2009 and won praise for chopping costs and discarding peripheral brands. Mr. Levatich, a mechanical engineer by training, is “more in the weeds” when it comes to understanding motorcycles, says Mr. Hardiman of Wedbush. He also is reassuringly familiar with employees and dealers. George Gatto, who owns Harley dealerships in the Pittsburgh area, said he has found the new CEO easy to reach: “I can call Levatich on his cellphone, and he’ll say, ‘Hi, George, how are you.’”